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Fedco is nearing completion of a major overhaul of its $100 million store in Pasadena, Calif. (DSN photo)

Highest-Volume Fedco Gets Major Overhaul

Gourmet-Style Grocery Area Added

By Pamela Krein

PASADENA, Calif. — Fedco, the Santa Fe Springs, Calif.-based discount department store which maintains a membership policy, is nearing completion of a major remodeling of its $100 million store here in Southern California.

Because of its non-profit status, which prevents the chain from raising capital by floating stock or bonds, Fedco is limited financially on the number of remodels and new stores it can complete each year. The Pasadena remodel is only the chain's third in as many years.

Known officially as Federal Employee's Distributing Co. and Subsidiaries, Fedco was created in 1948 by 800 postal workers. Fedco's members—now numbering over 3 million—pay a $5 lifetime membership fee and are technically the owners of the mutual benefit corporation.

These operating restrictions have limited Fedco's physical growth rate, but not its sales volume. Although the chain has only nine full-line department stores and three home furnishing centers, Fedco's fiscal 1987 sales were nearly $700 million, resulting in one of the highest-average store sales in discounting.

Fedco's full-line store in Pasadena, the chain's best location, generated more than $100 million in volume last year—prior to remodeling—said Philip Jick, executive vice president and director of merchandising.

With the remodeling nearly done, sales at the Pasadena unit, which is receiving its first major makeover since being built over 20 years ago, are

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Clover Expects Brighter Sales To Offset High Prototype Costs

By Richard C. Halverson

EXTON, Pa. — Clover has leapt light-years ahead of its existing stores and the rest of the discount industry with its innovative use of lighting in its new prototype opened here last month.

Light strikes the eye everywhere in Clover's prototype store, which opened Oct. 19 in this prosperous community nestled at the far end of Philadelphia's Main Line.

Light from track fixtures emphasizes the promotional aisle, endcaps and wall displays. Light gleams from backlit transparencies in the apparel department. Indirect light floods from behind cornices. Light from neon script signs marks departments, the snack bar and the customer service area.

Clover is betting that incremental sales gains at the new prototype will offset higher light bills: about one-third higher than in the same-size existing stores, estimated Warren White, general manager of Clover and vp of its department store parent, Strawbridge & Clothier.

Higher capital and operating costs for air conditioning to remove waste heat from all that extra lighting contribute

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Dropped ceiling and track lighting highlight fashion core of high-margin merchandise in Clover's new prototype store. (DSN photo)

Maxway Chokes on Danner's Stores; Files Chapter 11, Names New Prez

By Mary Ellen Kelly

SANFORD, N.C. — Maxway Corp. has closed nearly half of the 92 stores it operated at the start of 1988 and has filed for Chapter 11 protection. The full-liner cited "lack of trade support" and losses incurred from the "acquisition of the troubled Danner's chain" as origins of the current financial problems.

Wilson Sawyer, formerly chief operating officer, has been named Maxway president following the recent resignation of David Birdwell from that post.

The company is in the process of shutting all 18 of the 3D discount outlets it kept after acquiring the 35-unit Danner's chain in 1987. According to Sawyer, "we have found it geographically

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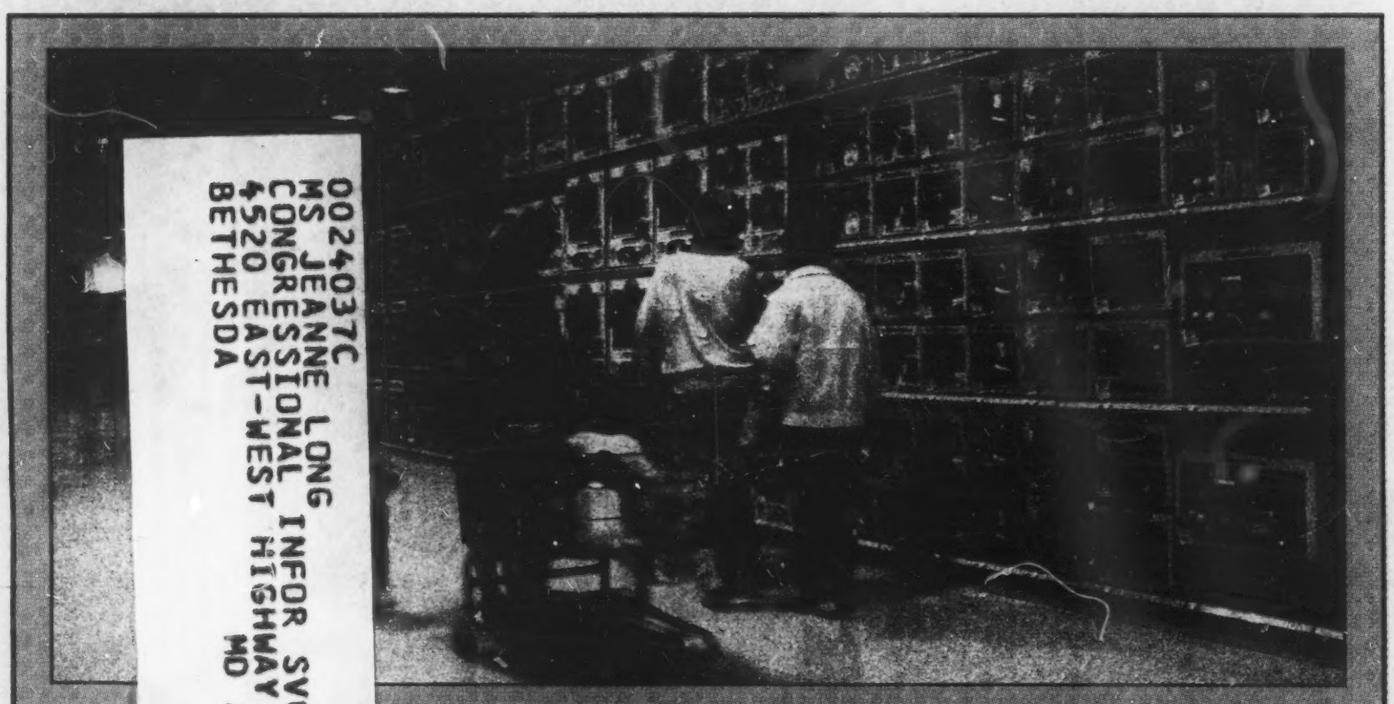
Sawyer



Auc s Houston with Aggressive Merchandising

Aucha consumers with another version of the European hypermarché. Tall gondo more 'American' look than its predecessors. See story, p. 4. (DSN photo)

Heck's Pacifies Stockholders; Paves Way for Plan Approval

NITRO, W.Va. — To gain stockholder approval for its bankruptcy reorganization plan, Heck's has sweetened the pot. The troubled discounter has agreed in principle to double the ownership share that existing stockholders could get to 20 percent from 10 percent.

Stockholders represented by a court-appointed equity committee had balked at the original proposal that would have left them with only 10 percent ownership, while creditors would have gotten 85 percent and management the 5 percent balance.

In response, stockholders filed two lawsuits, one seeking a stockholders' meeting to remove directors and another seeking $50 million in damages. They also asked the court to name a trustee to assume management of Heck's.

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K mart's Successful PL Program

Catalogers Step Up RTA Furniture Mix

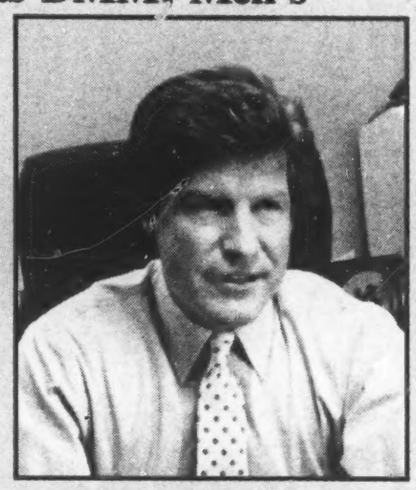
Home Health Care Shows Potential

MARKETWATCH

Parent Puts Smitty's on Block

PHOENIX, Ariz. — Smitty's Super Valu, the 23-store food and general merchandise retailer based here, has been put on the selling block by its parent, Montreal, Canada-based Steinberg Inc., which said it wants to concentrate on its Canadian retail operations. The first round of bids came in late last month, according to Smitty's spokesman Stan English. Steinberg did not disclose the names of any prospective buyers. Smitty's currently operates three strictly food stores, four 50,000-square-foot to 60,000-square-foot food combos (with limited general merchandise), and 16 larger food and general merchandise stores of 88,000 square feet to 110,000 square feet.

Tissot to Join Zayre as DMM, Men's



WORTHINGTON, Ohio — Roger Tissot, vice president and divisional merchandise manager of men's wear at Gold Circle, has left the soon-to-be-defunct discounter based here to join Zayre Corp., Framingham, Mass., as dmm, boys' wear, effective Nov. 14. Tissot will report to Manny Francione, vp, dmm, men's wear. Tissot came to Gold Circle in January 1987 from Bradlees, where he had worked for 22 years. "I'm excited about getting in on the ground floor of a newly formed Zayre operation," Tissot said. He added that "Zayre's merchandising skills and MIS systems with Ames' great operational ability to run stores" will be a potent combination.

Sears Opens Home Goods Specialty Store

NEW YORK — Sears opened its long-awaited home fashions specialty store here Oct. 25. The 13,000-square-foot site, called HomeStore, is located at the corner of 31st Street and Third Avenue in Manhattan. According to a company spokesman, the store is planned to be one of a kind, but if it proves to be a success, there is the possibility that more HomeStores may open in the future. HomeStore features a finely tuned selection of domestics, window fashions, carpeting and furniture, as well as limited selections of housewares, consumer electronics and other home products. The accent is clearly on kitchen and bath, with presentations of coordinated towel groupings dominating one wall of the store.

Northern Auto Names New Prez, CEO

PHOENIX, Ariz. — Northern Automotive named John S. Lacey to replace Dan Siewert, who resigned suddenly last month as president and ceo. Lacey, 45, headed The Molson Companies retail merchandising group, based in Toronto. The six companies in the group include Beaver Lumber, Canada's largest home center chain. Sales of the group totaled more than $1 billion (Canadian) in fiscal 1988. Northern Automotive is the second-largest automotive aftermarket chain, with dollar volume of about $650 million in 1987. It operates 870 stores.

Makro Opens Sixth U.S. Wholesale Club

BALTIMORE — Makro opened its sixth U.S. wholesale club here Oct. 26 and is set to open its seventh unit Nov. 9 in south Cleveland, which will be the second Makro in that city. The 160,000-square-foot Baltimore unit follows the same food/general merchandise formula of previous Makro clubs, offering 25,000 name brand products in a self-service warehouse environment. A division of K mart, Makro also operates in Cincinnati (its headquarters city), Washington, D.C., Philadelphia and Atlanta.

FOR THE RECORD

Despite being cited by 5 percent of K mart managers in a survey of top performing brands (*DSN*, Oct. 10, page 63), Health-Tex does not sell its children's apparel to K mart. The appearance of Health-Tex—as well as numerous other upscale brands that ostensibly don't sell directly to discounters—among the managers' responses can be attributed to a variety of reasons, including the existence of products that imitate the looks and labeling of upscale brands as well as the availability of many upscale brands to discounters through other sources, such as diverters.

The stationery brand, Herlitz, was spelled incorrectly in both the Oct. 10 and Oct. 24 Top Brands issues.

Newell, the diversified hardware and housewares manufacturer, posted about $720 million in consumer sales in 1987. The figure was reported incorrectly due to a typographic error in *DSN*'s Oct. 10 issue.

Technology Will Render Traditional Retailing Obsolete, Warn Panelists

WASHINGTON — Discounters and other retailers who cling to traditional views of retailing are destined to become marketplace relics left behind by more imaginative competitors.

That was the warning issued to chain executives by management information experts at the National Retail Merchants Association's 30th annual Retail Information Systems Conference here in October.

One highlight of the meeting, a panel discussion moderated by Zayre senior vice president Michael Bilotti, featured a quartet of experts offering incisive and often disquieting predictions on what the future holds for retailing.

Futurist Joseph Coates, for one, warned the group against remaining hidebound by customary business methods.

"As long as you're 'hung up' on a traditional definition of retailing, you're stuck in the past," he told chain executives at the conference.

Coates urged retailers to broaden their horizons beyond "glass doors" and counters packed with merchandise. He argued that retailers who consider operating stores to be their business will never be more than store operators. But those who regard their business as providing "comfortable, stylish clothes" will have many more options available to them in the future, Coates maintained.

What those future options will be was a matter of some debate among the other members of the panel, including Jeffrey J. Hallett, president, TRAC Inc.; John L. Diesem, main strategic systems planning director, Peat Marwick; and Norman Weiser, Morse Shoe vice president.

Diesem questioned the future acceptance of debit cards—a particularly popular emerging technology among retail information system experts at the NRMA conference—calling them "a technology without a following."

"Why would any consumer want to use a debit card?" he asked the panel.

To get better service, Zayre's Bilotti replied, noting that once debit cards are widely accepted they will speed lines through checkouts.

The NRMA meeting, pegged to the theme "Positioning for Rapid Change," was designed to emphasize the opportunities that exist for retailers to improve their bottom lines through careful planning and review.

Other speakers and panelists at the three-day meeting included David Carlson, corporate systems vp, K mart; James Carolan, MIS vp, The Gap; Allen Williams, vp, Belk Store Systems; David Evans, systems vp, JCPenney; Fred Asher, MIS vp, Dayton Hudson; and Richard W. Siegel, corporate data processing vp, Fred Meyer.

In addition to the speakers, the NRMA conference featured an exhibit hall packed with booths representing more than 120 sponsoring suppliers of MIS products and services.

Among the key trends forecast by panel members at the conference:

- A continuation of retail industry mergers and acquisitions, regardless of who controls the White House in 1989;
- Stepped-up foreign takeovers of U.S. retail chains;
- Greater emphasis on getting retail chain "MIS types" away from headquarters and into stores;
- Increased movement toward vertical integration, blurring the distinction between the factory and the storefront.

McCrory Poised to Acquire Odd Lot

Closeouter's Store Locations Viewed as a Strength

YORK, Pa. — McCrory Stores, the 1,300-unit variety store chain based here, is nearing a decision on whether to merge Odd Lot Trading, its latest acquisition, into its operations or run it as an independent corporation.

In a deal valued at $37.1 million, McCrory agreed to acquire the 103 stores and other assets of Odd Lot from Revco, the drug store chain now operating under Chapter 11 of the Federal Bankruptcy Act.

Legally, the purchaser of Odd Lots is the Riklis Family Corporation, which holds all of the stock of McCrory through its wholly owned Rapid-American Corporation.

Meshulam Riklis is chairman and chief executive officer of McCrory, chairman, president and ceo of Rapid-American, and chairman of Riklis Family Corporation.

Approval from a bankruptcy court is required, but Revco expects to obtain approval Nov. 8 and close the same day.

"It's still an open question whether McCrory will run it as a division or an independent corporation," a McCrory spokesman said.

Revco chairman Boake A. Sells had been attempting to sell Odd Lot since he took over Revco in September 1987.

But McCrory sees an opportunity in Odd Lot because of its "powerful locations."

With the exception of a few stores in Philadelphia and Baltimore, all of the Odd Lot stores are located in the metropolitan New York market: the five boroughs of New York City, Long Island, and northern New Jersey, the spokesman said.

"It's an area of high intensity. You certainly don't suffer from the lack of potential customers in the best market in the United States.

"One coach can produce a winning team, yet another coach was a loser," the spokesman said, referring to why McCrory is convinced it can resuscitate the closeouter.

In addition, Revco couldn't focus on Odd Lot because of its bankruptcy problems, he said.

One immediate area McCrory will have to address is the shortage of merchandise in the Odd Lots stores, which average 5,000 square feet in size. Revco, by design, allowed inventories to run down, the spokesman said.

Under terms of the asset purchase deal, McCrory buys inventories, fixtures and real interest interests, mostly leases, as well as Odd Lot's 500,000-square-foot distribution center in Elizabeth, N.J.

In a 1987 acquisition, McCrory bought the remnants of the old Kresge variety store chain from K mart Corp. It bought 66 Kresge and Jupiter stores and closed 11.

In addition to McCrory, the Riklis Family Corporation owns these consumer brand names: Samsonite, Elizabeth Arden, Faberge, Culligan, Martha White Foods, Botany 500 and McGregor (men's and boys' apparel).

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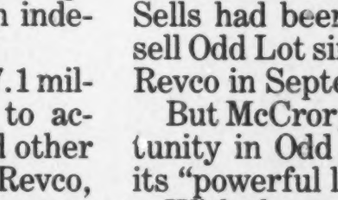

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Discounters Surpass Drug Stores in Sunglass Sales

NEW YORK — Discount and variety store operators have dethroned drug stores as the leading mass market retail outlet for non-prescription sunglasses in this country, according to a recently released survey of the industry.

In fact, discount and variety store operators sold more non-prescription sunglasses than any other category of retailer. The mass merchandise/variety category was also the only one to notch an increase in the retail price of sunglasses between 1986 and 1987.

"The mass merchandiser area of the business would appear to be the leader in the mass part of the market," observed Mauri Edwards, public relations consultant for the Sunglass Association of America, headquartered in Norwalk, Conn.

Edwards noted that drug store outlets used to be the leader in the mass market for the sale of non-prescription sunglasses. Their decline has been steady, he said, noting that consumers are looking for more upscale products not found in those stores. Many of those products are available in other outlets, including mass merchandisers.

Drug store operators did sell more sunglasses in 1987 than they did in 1986, but for 20 percent less per pair, according to SAA. Last year, drug stores collected $180 million in sunglass sales, or 13 percent of the total, down 2 percentage points from 1986.

In 1987, 189 million pairs of non-prescription sunglasses were sold in this country totaling $1.32 billion at retail, up 10 percent from 1986. Of that total, $200 million, or 15 percent of the industry's total sales, were rung up by discount and variety store operators.

Mass merchandise retailers sold 28 million pairs of non-prescription sunglasses in 1987, 21.7 percent more than 1986's totals. They sold the glasses for an average price of $7.14 per pair last year, up 9.5 percent over 1986, according to SAA statistics.

On average, non-prescription sunglasses sold for $7 a pair in 1987, or 14 cents below the mass merchandiser price.

Between 1986 and 1987, the market share for mass merchandisers grew by 2 percentage points in both units and dollars, the SAA reported. No other retailing category matched that growth.

Food and convenience stores came the closest, with unit and retail price increases of 1 percentage point, statistics show.

However, optical/sunglass stores tied mass merchandisers in total retail dollar volume, at $200 million and 15 percent of the total market, due to the $20 price tag charged on average for glasses at these outlets. Optical/sunglass stores, though, sold only 10 million pairs of glasses last year, representing just 5 percent of all units sold.

The only outlet category to exceed mass merchandisers in retail sales volume was department stores and general merchandisers, which collected $250 million in sales last year, capturing 19 percent of the total market. These stores sold 25 million pairs of non-prescription sunglasses, or 13 percent of the industry's total unit volume, at an average retail price of $10, down 29.5 percent from 1986.

Although the unit movement increased for department stores and general merchandisers, together their market share in terms of dollar volume declined by $30 million, or 4 percentage points.

For food and convenience stores—the only other retail category to record both unit and sales increases between 1986 and 1987—sales reached 13 million pairs and $90 million at retail, or $6.92 a pair, a per pair price decline of 8.4 percent. Despite that price drop, the rising market share of these outlets could threaten the market strength now enjoyed by mass merchandisers.

Edwards noted that food and convenience stores have the greatest potential to generate sales increases than any of the other categories, including mass merchandisers and variety store operators, because of the convenience and frequency of shopping these outlets.

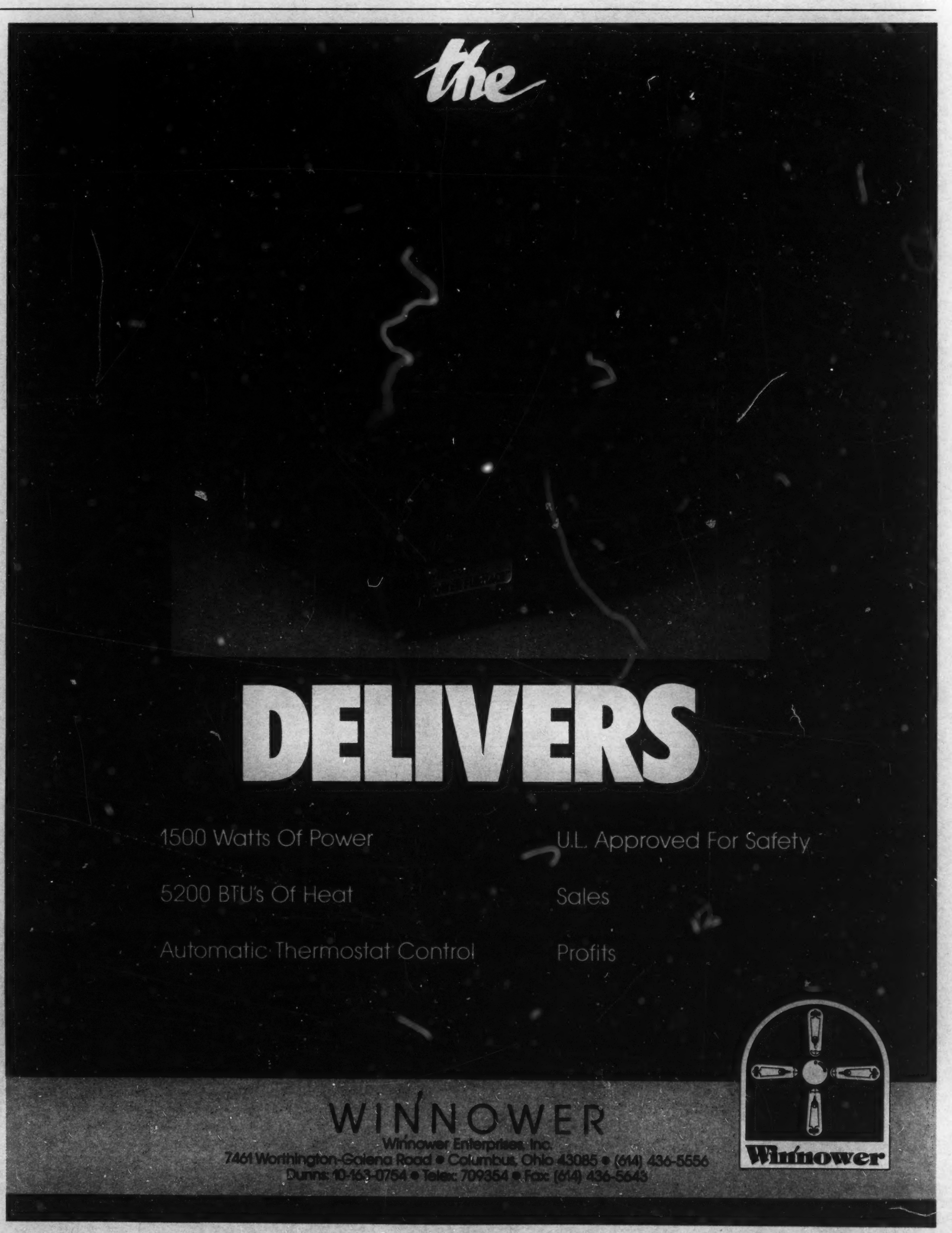
But discount and variety stores have exhibited a growing market strength in the sale of non-prescription sunglasses, due to discounters' skill in merchandising and promotional activity, and their general practice of charging lower prices to attract consumers, said Edwards.

Despite the activity of the five retailer categories identified by SAA, they represent only half of the sunglass units sold in the country, and 69 percent of the dollar volume collected from those sales. The balance of sales are sold through other channels that are difficult to track, said Edwards, noting that the largest avenue for non-prescription sunglasses are street vendors.

Non-Prescription Sunglass Sales in the U.S.
(In Millions)

	1983	1984	1985	1986	1987
Pairs Sold	115	145	160	175	189
Total Retail	$885	$1.02	$1.03	$1.2	$1.32

Source: Sunglass Association of America, 1988



Clover Expects Brighter Sales To Offset Prototype Costs

(Continued from page 1)
to the higher bill for Clover's new prototype, White said. He refused to disclose how much more it cost to build the new prototype, which at 82,500 square feet is the same size as the old prototype.

The extra outlays, including more chrome apparel fixtures, taller gondolas and special floor treatments, will translate into extra volume and higher margins, White said, because shopping will be a more pleasant experience.

"We don't know of anything we could do to make it a more pleasant place to shop," White said during a pre-opening tour. "We've set a new standard for upscale discounting. We're putting in the dollars to have a warmer, more comfortable feeling."

Despite the classier setting, customers will recognize Clover as a discount store, White said, due to its promotional pricing and wide selection.

In its prototype, Clover will follow its same promotional policy of putting 300 to 350 items on sale each week, White said. Weekly tabs advertise the sale items.

In addition to lighting, wide aisles and extra spacing between apparel racks add to the feeling of spaciousness.

A main aisle extending from the entrance—set off to the left of center—to the rear of the store is 14 feet wide. The center promotional aisle, which runs at right angles to it, is 12 feet wide. The racetrack aisle is 8 feet wide, while two other front-to-rear aisles are 10 feet wide.

Clover increased apparel rack spacing to a minimum of 24 inches to 30 inches from 18 inches to 24 inches.

The 22-store regional chain has increased soft lines selling space to 53 percent from 47 percent, White said. The shift in apparel sales space should improve overall margins, White said. But the new prototype stocks the same number of hard lines sku's through high-impact merchandising.

In sporting goods and hardware, located to the right rear, merchandise is stacked up to 96 inches, compared to 72 inches in previous stores. Elsewhere in hard lines, gondola fixtures are 72 inches high, compared to 60 inches to 66 inches. "We're using the cube," White said.

The new prototype stocks the same number of sku's as the old: about 100,000. "Assortment is very important to Clover," White said.

Halfway down the entrance aisle, the prototype features a staffed jewelry core. To the front and rear are the fashion accessories and cosmetics departments. The promotional aisle extends left and right of the jewelry core to draw shoppers to both sides of the store.

To the left of the jewelry counter, a dropped ceiling and track lighting highlight what White calls a "fashion core" that features higher-margin merchandise. Toward the hard lines side of the store, a similar core emphasizes higher-margin housewares.

Stackout pallets—even for bulky, case merchandise such as motor oil—are conspicuous by their absence.

Clover created a new department, which it calls Household Needs, by pulling together household consumables such as soaps and cleansers, paper products, mops and brooms, and Rubbermaid products. Located at the right rear, the department is meant to draw customers through the store to buy items they frequently need.

Differing pastel wall colors and carpeting colors delineate departments. Housewares gets special floor treatment: simulated pine boards. The consumer electronics and camera department also gets distinctive flooring: jet black vinyl tile.

The chain will convert one of its existing stores to the new prototype next year, White said, and the others at the rate of two a year.

Clover put new store construction on hold pending the outcome of bids it submitted for some of the Bradlees store sites in the Philadelphia market, White said. Hechinger, the home center chain, recently bought 47 Bradlees units and announced intentions to resell half. As *DSN* previously reported, Clover is interested in an undetermined number of the Bradlees stores that don't compete with its own.

Clover's expansion plans will stick to the same Philadelphia-southern New Jersey-Delaware regional market as its department store parent, White said. So far, Clover has no stores in the state of Delaware. "Site location has been a problem," White said.

Highest-Volume Fedco Gets Facelift

(Continued from page 1)
expected to grow even higher.

Changes include a 35,000-square-foot warehouse added off the back of the previously 150,000-square-foot structure. Fedco's old back room space has been turned over to the selling floor—providing an increase of 16,000 square feet. This added space is benefiting several key departments including consumer electronics, apparel, sporting goods, hardware, garden, domestics, seasonal and grocery.

Other changes include:

- Camera and office equipment (previously situated at the front of the store) has been combined with televisions and stereo (previously in the back) into a single CE room.
- The seasonal department has been moved up front near the expanded garden and hardware departments. With the old layout, summer seasonals like plants, lawn furniture and other outdoor products were at the opposite end of the store from the year-round garden products.
- Fresh produce and a scratch bakery have been added in the gourmet-style grocery area.
- Many of the remaining areas are receiving some additional display space with the addition of 32 new 12-foot and 16-foot gondola runs.

The Pasadena store is the sixth full-line Fedco store to use scanners for general merchandise, and Jick said the other three full-line stores will be scanning general merchandise by the end of the year. (All stores have been scanning grocery items.)

Since Fedco carries an extensive variety of product—some 150,000 non-food items and 8,000 to 10,000 grocery products—scanning will enable Fedco to carry the best merchandise mix, while providing proper replenishment, said Jick.

Next on the company's remodeling list are its Los Angeles and National City, Calif., locations. However, Jick said the work at these sites will not be as extensive. Jick said Fedco is also looking to open new stores, but because of high real estate prices and the chain's growth-through-profits-only policy, future growth will continue to be slow paced.

Heck's Pacifies Angry Stockholders

(Continued from page 1)
Clearing the way for possible bankruptcy court approval of the reorganization plan, the committee dropped both of its suits and agreed to support the new plan. It also dropped its request for a trustee.

Under the revised plan, stockholders would get 17½ percent of new stock to be issued, as well as warrants, or rights, to purchase 2½ percent more at a par value of 5 cents a share. Instead of outright ownership, management would get warrants to buy 5 percent, also for 5 cents a share. That would bring in as much as $400,000 if all warrants were exercised. The stockholder committee also gets the right to name two members of Heck's board.

Heck's would increase the number of shares outstanding to 60 million from 9 million, with an approximate book value of 80 cents a share.

Creditors' share of the stock would be cut to 75 percent, but other creditor provisions were unchanged. They would recover about 50 cents on the dollar through proceeds from the sale of 43 stores due to close by year-end and $20 million worth of 10-year junk bonds paying 12½ percent. Heck's will then have 75 units, down from its 1986 high of 165.

In another provision of the agreement, The Hallwood Group, a merchant bank specializing in financing turnarounds, agreed to purchase at a fixed price any stock or bonds that a creditor preferred to sell, rather than hold. Hallwood thus would become a principal.

Chief financial officer Maarten D. Hemsley refused to disclose the stock purchase price. But he did say the total value of all Heck's stock would be in excess of $20 million, indicating a per share value of at least 33 1/3 cents per share.

The provision that permits creditors to cash in their stocks and bonds overcame the cut in their ownership, Hemsley said. The committee representing creditors supports the new plan, he said.

Existing stockholders would be given first rights to purchase from Hallwood 26 percent of any stock it buys from creditors.

Heck's chairman and ceo John R. Isaac Jr. said the agreement should lead to a speedy conclusion of the bankruptcy proceedings and allow Heck's to emerge from Chapter 11 by early 1989.

Va. Strikes Down State Blue Laws; Sales to Rise

(Continued from page 3)
The Virginia Supreme Court ruled on Sept. 23 that the state's blue laws violated the Virginia constitution and was inconsistent with the original intent of the law, Greenberger said.

Leading the battle to overturn the Sunday blue laws in Virginia was a committee of retailers that included K mart, Zayre, Rose's, Best Products, Circuit City and Hechinger. This group initiated a lawsuit against Virginia's commonwealth attorney in 1985 to repeal the Sunday closing laws. They lost and then petitioned the Virginia Supreme Court for a hearing, which was heard last June.

"If competition opens, we're going to open," said Ed Powers, manager of governmental affairs for K mart. "If we feel the people want us to open, we're going to support blue laws repeal."

Although little more than a handful of states still restrict Sunday selling in some form, exemptions to the laws have perforated the original intent of the laws and have provided jurisdictions with many legal inconsistencies. In several states, such as Oklahoma, Alabama and Missouri, the laws are considered unenforceable.

"There are so many new kinds of retailers and a blurring of the lines" distinguishing what is permitted and what is not, said Charles McDonald, executive director of the Alabama Retail Association in Montgomery, Ala. Therefore, he said, the laws are scarcely enforced.

Missouri still has Sunday blue laws but only as a local option, said Sam Overfelt, president of the Missouri Retailers Association in Jefferson City, Mo. Most of the major trade areas in the state have "opted out" of the law.

Only two states have statewide Sunday restrictions, Maine and North Dakota, but have many exemptions.

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Sears Strikes Back

Major Overhaul Needed To Match Discounters

Nationwide DSN Report

Combined with Sears' earlier announcement that it would add more national name brand products to its stores, the new merchandising direction of the nation's largest retailer appears to take it into direct competition with discount stores and high-volume specialty chains.

Yet, there is confusion over whether Sears will really be a discounter and much doubt concerning its ability to lower operating costs enough to compete head-on against discounters on everyday prices of name brand goods.

Several of the discount industry's leading retailers—such as K mart, Hills and Bradlees—declined to comment on Sears' plans or its effect on

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Sears is creating excitement through various experimental superstore formats: Its latest is the Homestore, recently opened in New York City. (DSN photo)

Venerable Giant Adopts Low-Price, Brand Focus

By Laura Liebeck

CHICAGO — Despite adopting a discount store-type everyday low pricing strategy for its 825 stores, Sears still is shunning the "D" word.

The nation's largest retailer, which this month unveiled sweeping changes in its merchandising strategy, flatly denied it is transforming itself from a general merchandise department store into a discount store operation.

Edward Brennan, chairman and chief executive officer, and Michael Bozic, chairman of Sears' merchandising group, told analysts in New York earlier this month that Sears will not become a discounter even though the Chicago-based chain will:

- Slash prices throughout its stores;

(Continued on page 37)

Target's 'Bringing Christmas Home' promotion features singer Aretha Franklin, shown filming a commercial in Detroit, and 'Cosby Show' star Keshia Knight Pulliam.

Aretha Brings Christmas 'Home' in Target Promo

By Tony Lisanti

MINNEAPOLIS — Target Stores has unwrapped a Christmas promotional campaign with a little bit of soul that will generate a lot of sales.

Themed "Bringing Christmas Home," the program, which will debut on Nov. 25, the day after Thanksgiving, contains three components:

- A television and radio advertising blitz that showcases Aretha Franklin, popular rhythm and blues singer;
- A print campaign that features Keshia Knight Pulliam, who plays Rudy on "The Cosby Show" and Tweaks, Target's exclusive plush toy offering;
- Great Gifts, a special assortment of 22 gift items for the kitchen, car, home and travel all priced under $20.

"It's Target's largest Christmas campaign ever," said John Pellegrene, senior vice president of marketing for

(Continued on page 35)

Christmas Shoppers Plan To Start Later, Spend Less

Nationwide DSN Report

Discounters will ring up fewer dollars than they hoped but more than they feared during the 1988 holiday season, according to Leo J. Shapiro, founder/chairman of Leo J. Shapiro & Associates, the Chicago-based consumer research firm.

This also will be the year when some of the discounters who have upscaled their operations will see if they have gone far enough to attract the department store customer, he said.

Specialty store retailers will do well this year, especially since they reflect the appeal of the department store, the retail outlet that really shines during the holiday season, said Shapiro.

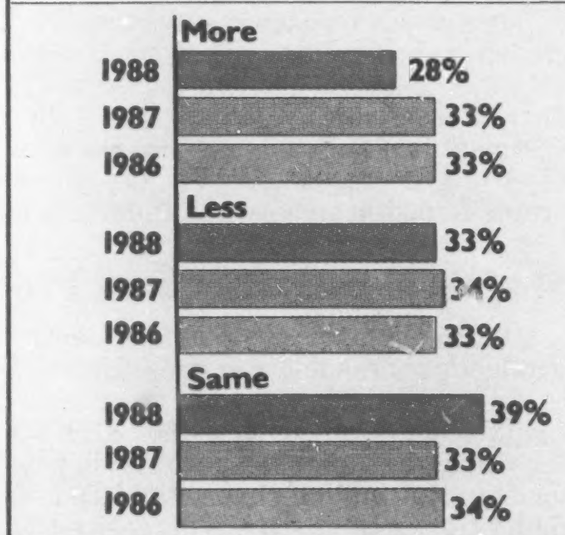
Full-price department store operators tend to fare better than discounters during the holiday gift-giving season because consumers prefer to give gifts in wrappings from upscale stores, he

(Continued on page 33)

Best Sellers for the Christmas Season In Apparel and Toys—see stories, page 3

Consumer Shopping Mood For Christmas Season 1988

Consumers Said They Will Spend:



Source: Leo J. Shapiro & Associates, October 1988

ShopKo Presses Attack on Northwest

By Pamela Krein

EUGENE, Ore. — ShopKo Stores, the 87-unit, Green Bay, Wis.-based discounter, will stoke the competitive fires in the Pacific Northwest when it opens two stores here next fall.

The Oregon move expands ShopKo's penetration even deeper in the West. Last year, the chain made its debut in Washington state, and it will have four stores there by the end of this year. It also opened seven stores in Idaho and seven in Utah.

ShopKo's expansion into the territory coincides with the growth of Target in the Pacific Northwest. Target opened its first wave of stores here this summer, and the Minneapolis-based full-liner expects to be operating 35 stores in Washington and Oregon by 1993.

The two new entrants into the Pacific Northwest will

(Continued on page 35)

Watches Get Prime Time

Domestics in Forefront At Fisher's Big Wheel

Truck Accessories Roll On at Chains

MARKETWATCH

K mart Unveils Super K mart Units

TROY, Mich. — K mart unveiled on Nov. 13 its two Super K mart stores, which feature large grocery departments in a warehouse-type presentation, along with the discounter's regular general merchandise assortment. The two remodeled stores are in Kankakee, Ill., and Clinton, Iowa. Both units have added 23,000 square feet to house the new grocery department.

Price Club Completes A.M. Lewis Takeover

SAN DIEGO — Price Club has completed its $46.7 million tender offer for grocery wholesaler A.M. Lewis, and the membership warehouser will soon merge the acquired company with its A.M.L. Acquisition Inc. subsidiary.

Tuesday Morning Reaches 100-Store Mark

DALLAS — Tuesday Morning, the closeout retailer based here, opened its 100th store in late October, in Annapolis, Md. In all, five stores premiered that day, in Texas, Florida and Illinois. The company plans to grow about 15 percent a year in the near future. Tuesday Morning has created attention not only with its rapid expansion, but also its unique business style. The stores open only four times a year, in prime selling seasons, and are open to the public only six months out of the year. The store specializes in remainders and closeouts.

Price Savers Eyes Sacramento, San Diego

SALT LAKE CITY — Price Savers will invade more Price Club territory next year when the 16-warehouse chain based here moves into Sacramento and San Diego Counties. Price Club is currently the sole membership club operator in both cities. Although plans for the three sites are progressing, director of properties Bruce Van Horn said the company's restructuring process could affect future openings. Price Savers is being sold by its parent, Kroger, to a management-led team.

Ames Completes Zayre Acquisition

ROCKY HILL, Conn. — Ames Department Store officially completed its acquisition of 392 Zayre discount stores (four more than originally announced) for roughly $775 million (about $25 million less than originally announced). The final purchase price is subject to a year-end audit of the Zayre stores to be conducted next month.

Campeau Sells Off Children's Place

TORONTO — Completing its previously announced sell-off of eight Federated Department Store divisions, Campeau Corp. has sold Children's Place, the 161-unit specialty chain, to TCP Acquisition Corp. for $30 million, an amount significantly less than the approximately $75 million that Campeau was reportedly hoping to garner. Included in the deal is the 41-store Accessory Place, a women's wear chain, which will be owned by a new company formed by Tribeca Holdings Inc.'s New York-based investment banking unit, Tribeca Corp., which acted as adviser to TCP Acquisition. Tribeca currently owns and operates Lamston variety and Plymouth apparel stores.

Shareholders Tender Best Products Stock

RICHMOND, Va. — Ninety-eight percent of Best Product's shareholders at presstime tendered their stock to Adler & Shaykin, enabling the New York investment firm to carry out the "friendly" $1.1 billion acquisition of the cataloger. Adler & Shaykin will pay $27.50 per share for the 24.4 million shares tendered. Shareholders who didn't tender their stock will receive the same amount after all the legal and financial details of the deal are completed later this month or early in December.

K mart Creates Post for Nigolian

TROY, Mich. — K mart announced that Thomas H. Nigolian, 49, was promoted to senior vice president of store planning and interior design, a newly created position for the 28-year K mart veteran. William Underwood, 48, succeeds Nigolian as senior vice president, general merchandise, a position Nigolian held since January 1985. In his new position, Underwood will be responsible for merchandising all hard lines departments. The executive had been vice president, general merchandise manager for men's, boys', infants' and fashion accessories for K mart Apparel Corp.

Wholesale Club to Open No. 8 in Ohio

INDIANAPOLIS, Ind. — The Wholesale Club plans to open a 103,000-square-foot membership warehouse in Youngstown, Ohio, in spring 1989 as its eighth store in the Buckeye State. The company already has units in Columbus, Cleveland, Eastlake, Elyria and North Canton.

Office Club Readies Public Offering

Proceeds to Fuel Growth of 11-Store Chain

By Pamela Krein

CONCORD, Calif. — Office Club is going public. The office supply warehouse chain based here plans to issue 1.5 million shares that could provide net proceeds of up to $14.95 million to fuel further expansion for the 11-store chain.

The chain filed a registration statement with the Securities and Exchange Commission last month for the offering that should take place late this month. The going price is expected to range from $9 to $11 per share.

In its registration statement, Office Club said proceeds from the offering will be used to finance its growth in both new and existing markets—average preopening expenses run about $190,000 per warehouse. The chain operates 10 warehouses in California and one in Oregon. Four more sites will open in December and three more are presently planned for 1989.

Office Club said its warehouses average 16,000 square feet of selling space and stock 2,200 sku's of office supplies, office furniture, office machines and microcomputers. However, the chain said its top 650 sku's account for 85 percent of its total sales.

Like many offshoots of the membership warehouse club concept, Office Club has a membership policy, but is also open to the public and allows non-members to shop the store and pay 10 percent over posted prices. To give itself an edge in the market, Office Club also offers its members credit, delivery and telephone ordering services.

Through the first three months of its fiscal year, ended Sept. 30, 1988, Office Club had sales of $32.7 million, with average weekly sales per location at $131,000, and a net income loss of $2.28 million.

Since the company's inception in 1986, Office Club has showed a net loss each year. In its registration statement, the chain said it expects future opening costs will keep the chain in the red in 1988 and 1989.

OTASCO Brings Auto Biz to Halt

TULSA, Okla. — Unable to recover from the depression in the Oil Patch, OTASCO filed for Chapter 11 bankruptcy and shuttered all of its 170 remaining automotives and appliance stores.

OTASCO chairman and chief executive officer Jerry L. Goodman said the employee-owned company laid off 1,600 employees, retaining only a small staff at its headquarters to handle bankruptcy proceedings.

Goodman blamed the lack of bank financing to purchase Christmas inventory for its abrupt decision to halt all retail operations. Dissolution or partial dissolution, as well as resumption of business (possibly in the spring) are options for the 70-year-old company, he said.

"Our inability to fund Christmas inventory . . . was certainly the turning point for us," Goodman said in a prepared statement announcing the bankruptcy.

In its filing, OTASCO listed $187 million in assets and debts of $163 million.

In attempts to recover, OTASCO had taken a number of restructuring steps, including closing 42 money-losing stores last fall. In January, it sold to the Coast to Coast hardware chain its wholesale division for $7.5 million.

In June, the Atlanta-based Miller/Zell retail design firm took a "substantial equity" position in OTASCO. And the company this fall opened five stores of at least 10,000 square feet in size, including a 16,800-square-foot unit in Athens, Ala. As recently as October, OTASCO was operating 197 stores.

At its peak, OTASCO ran more than 600 company-owned and associate stores. It was the fourth-largest employee-owned company in the nation.

Revenues last year totaled an estimated $270 million, including wholesale and retail sales.

Modell's Unloads Full-Line Stores To Focus on Sports

EAST MEADOW, N.Y. — The Henry Modell Co. is getting out of the full-line discount store business and returning to its 99-year-old sporting goods roots.

It is closing all six of its Modell's Shoppers World discount stores on Long Island and diverting resources to sporting goods retailing. It sold one store and leased two others to Atlanta-based Home Depot. Next to the two leased sites, Modell leased back land to build two more Modell's Sporting Goods units of up to 20,000 square feet.

In addition, the company completed a sale-leaseback agreement with a real estate firm for a fourth store. Plans for the other two are undetermined. Started in 1889, Modell's claims to be the oldest family-owned sporting goods chain in the nation.

After opening nine stores this year, Modell's operates 29 sporting goods stores and plans to open 11 more in 1989, said president Michael Modell. Store sizes range from 15,000 square feet to 25,000 square feet and stock up to 20,000 sku's. Annual sales are between $50 million and $100 million.

Modell's Shoppers World still runs on the original discount store concept of leased departments. It operated only sporting goods and luggage.

DISC Award Deadline Extended

NEW YORK — *Discount Store News* has extended the deadline for entries in the 1988 DISC (Discounters In Service to the Community) award competition to Jan. 1, 1989. Instituted in 1979 by *DSN*, the DISC award recognizes the many outstanding community service efforts of the discount store industry.

To enter, submit documentation (including newspaper/magazine clippings, letters, videotapes, etc.) of community service achievements conducted between October 1987 and October 1988 to: DISC Award, Editor, *Discount Store News*, 425 Park Ave., New York, N.Y. 10022.

Each entry must include a statement of at least 100 words outlining the company's philosophy and strategy for its community service programs. Each entry must also contain four complete sets of materials for judging by a panel of experts from the discount store industry.

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Cautious Holiday Shoppers Plan to Start Later, Spend Less

(Continued from page 1)

said, noting that "regardless of what's being bought, the box is important."

In a national survey of 450 consumers conducted in September and October, Shapiro found that consumers are cautious about spending money right now and are holding back on buying Christmas gifts.

They will, eventually, spend their money, and retailers will sell the inventories they've stocked for the season. The question is how long will retailers wait to put the merchandise on sale and exactly when will purchases be made. Consumers are playing a "wait and see game" with retailers, said Shapiro. Their mood is uneasy, according to survey results.

Why Consumers Will Spend Less on Christmas This Year

Have Less Money	15%
Buying Fewer Gifts	10%
Prices Too High	3%
Spent Too Much Last Year	3%

Source: Leo J. Shapiro & Assoc., October 1988

According to the survey, consumers are "somewhat less" excited about spending money on Christmas this year compared to 1986 and 1987.

Survey results reveal that in October, fewer consumers said they will spend more and fewer said they'll spend less on Christmas this year but that more of them will spend the same amount of money as they did in years past.

In October, only 28 percent of the consumers polled by Leo J. Shapiro & Associates reported they will spend more money on Christmas gifts this year than in 1987, down 1 percentage point from a September survey and down 5 percentage points from October 1986 and 1987.

One-third of the consumers said they would spend less money this season, down 3 percentage points from September, and down 1 percentage point from October 1987, but the same as 1986.

Nearly four out of 10 consumers polled said they would spend the same amount of money this year as last, up 5 percentage points from September, 6 points from last October and 5 points from 1986.

Of consumers who said they will spend more on gifts this year, the biggest reason, cited by 11 percent, was that they are buying more gifts. Slightly fewer cited price increases.

QR Grows Up; Conference Date Set

(Continued from page 3)

Bob Martin, Wal-Mart's senior vice president of corporate information systems, and co-chairman of QuickResponse 88.

Two studies detailing the costs and benefits of using UPC, EDI and shipping container scanning—technical factors that make up QR—will be released at the show.

The studies were commissioned by the Voluntary Interindustry Communication Standards committee, which is sponsoring the show with the Automatic Identification Manufacturers Inc.

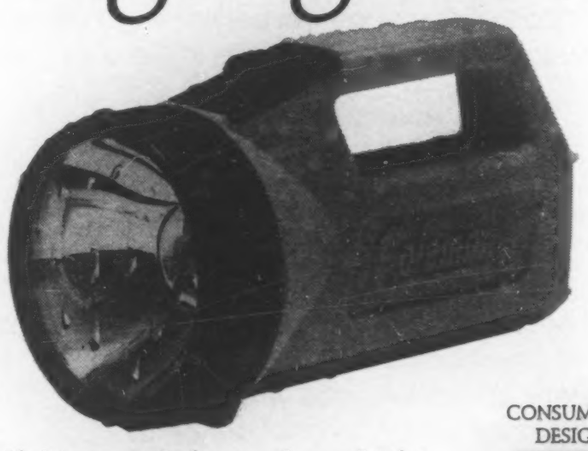
VICS is an ad hoc organization of retailers and vendors that has promulgated bar code and EDI standards. AIM is an association of manufacturers and suppliers of automatic identification systems.

QuickResponse 89 will use a two-track plan for its show. The first track on March 21 will focus on the technology for implementing QR, including bar code labeling and scanning and EDI. One session will present the study on cost benefits for retailers.

Track two on March 22 will center on implementation of QR systems. Sessions will include the study of cost benefits to vendors and case studies on QR implementation.

For info: AIM, 1326 Freeport Road, Pittsburgh, Pa. 15238. Phone: (800) 338-0206.

Light guard.



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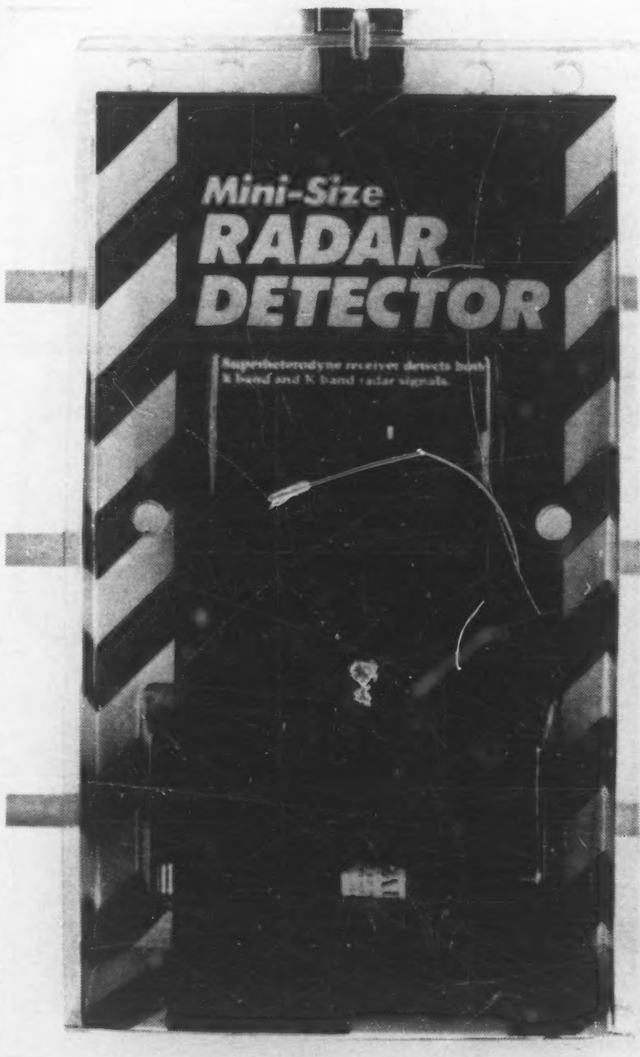
Maxon's New Clamshell Makes a Visible Difference



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Now it's in a compact, tamper/pilfer-resistant, show-and-sell clamshell package. This new clamshell measures only 6¼" × 11", with a 2¾" base—taking up a minimal amount of your "SKUseable" space. Sitting on the shelf or hanging on a display.

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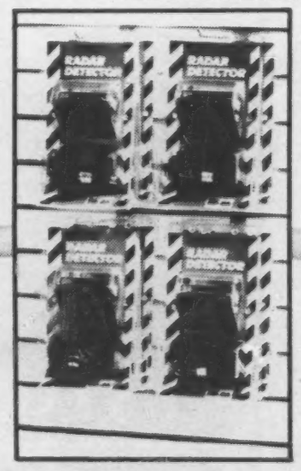
Then, of course, inside there's the Maxon full-featured, mini-size RD-21A. This dual conversion superhet receiver detects X and K band police radar surveillance and alerts the driver within 1/8 of a second. Also featured are anti false alarm circuitry and City/Highway sensitivity selection.



See for yourself what a difference teaming the RD-21A with its new clamshell makes. Contact Maxon for all the details. Then place that first of many "on-the-clamshell" orders.

Maxon's RD-2A "Econo" detector is also available in clamshell packaging.

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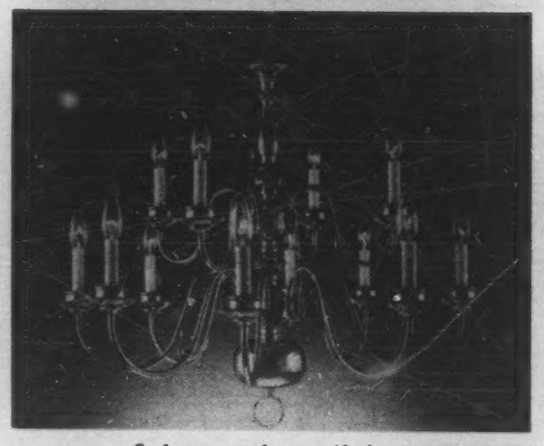

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Cable Operator Eyes Takeover of Acquisition-Minded CVN

(Continued from page 3)
federal bankruptcy court's approval of its agreement in principle with Cox Cable Communications, the nation's fifth-largest cable operator, to jointly own America's Shopping Network. CVN would hold 70 percent of ASN's stock and Cox 30 percent.

ASN, based in El Cajon, Calif., has been in Chapter 11 since May. The CVN/Cox agreement is the key element in a reorganization plan that ASN is due to submit to the court in San Diego at press-time. ASN airs local teleshopping shows on Cox systems in San Diego, New Orleans and Hampton Roads, Va., and on non-Cox stations in Atlanta and Tulsa, Okla.

CVN Cos. this week expects a federal bankruptcy court in Los Angeles to approve its operational takeover of The Fashion Channel, an apparel and accessories-oriented video retailer that has been in Chapter 11 since July. CVN Cos. has been operating TFC for the past two months (see *DSN*, Oct. 24, page 4) while the bankrupt teleshopper drew up the reorganization plan that will be filed with the court.

Already a $588 million company, CVN Cos. wants to add ASC and TFC to its stable of teleshopping programs as part of its drive to become a $1 billion retailer. The company's differentiated lineup would then include Cable Value Network as the national mass teleshopper, ASN as a localized programmer and TFC as a fashion specialty show.

CVN Cos. has recently augmented its core Cable Value Network operation by:

- Opening a new 550,000-square-foot East Coast distribution center in Suffolk, Va. The $22 million facility in southeast Virginia stocks all the merchandise sold on The Fashion Channel and serves as a regional DC for CVN.
- Expanding CVN's popular series of hour-long shows dedicated to a single major supplier. The latest vendor special featured Sharp Electronics, CVN's No.1 consumer electronics supplier.
- Adding a series of new entertainment-oriented programs to its schedule. These include "Sunrise Edition," a morning show with news and entertainment, and "Crosswords," a viewer-participation game show that awards prizes and discounts on merchandise to viewers who correctly solve a crossword-type puzzle. The latter show, broadcast off and on between noon and 3 p.m., has significantly boosted sales in that traditionally slow part of the day, an executive said.

CVN Cos.'s expansion moves came just as TCI disclosed its interest in possibly acquiring the teleshopper. In a 13D filing with the Securities and Exchange Commission, TCI reported that it has boosted direct holdings in CVN from about 14 percent to 17.24 percent by open market purchases of 527,000 shares for about $7 million.

TCI could acquire the rest of CVN Cos. for about $175 million, if bought at current stock prices, TCI president John Malone said. TCI's ownership of CVN Cos. would strengthen the Denver firm's position as the leading MSO and provide it with another revenue stream while ensuring continued cable operator control of and commitment to the CVN network.

TCI helped launch the Cable Value Network in opposition to the Home Shopping Network, which was started and continues to be controlled by interests outside the cable industry.

Malone said that TCI would like to own more CVN Cos. stock even if the cable company didn't control the teleshopper outright. CVN Cos. doesn't have any debt, but has a large tax burden so that changes in its capital structure could result in a large payout to whomever holds shares of the firm, he added.

CVN Cos. chairman Theodore Deikel declined to comment on the TCI filing.

BJ's WHOLESALE CLUB

HomeClub
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ZAYRE CORP.
FRAMINGHAM, MA 01701

To: Our Manufacturers and Suppliers

Statement of Policy Concerning Gifts

We are taking this opportunity to restate our policy concerning gift-giving, not only during the forthcoming holiday season, but at all times of the year, on any occasion. Gifts, no matter how well intentioned by the donor, tend to shake the moral structure of the firmest business foundations by substituting subjective emotions and motives for objective judgment based on service, quality and price.

Accordingly, for the mutual protection of our suppliers, our employees and the Company, we prohibit our employees from accepting gifts, gratuities, payments or favors of any kind. Any gifts received by our employees will be returned to the donor or donated to charitable organizations. Our employees are advised that violation of this policy is considered to be a grievous matter.

We call upon you to assist us and our employees by refraining from giving or offering such gifts. Your awareness of and cooperation with this policy will foster the continuation of fair business practices that favor our close association.

Best wishes for a happy, healthy, holiday season and a prosperous New Year.

Maurice Segall
Chairman and Chief Executive Officer

John F. Levy
Group Executive

Poor Financial Results at Sears

(Continued from page 37)
7.6 percent to $7.49 billion, largely due to the sale of Western Auto, which Sears acquired earlier this year.

Through nine months, income in the general merchandise group declined 8.6 percent to $342.9 million, while revenues rose 6.5 percent.

Edward Brennan, Sears chairman and chief executive, predicted fourth quarter sales would improve but noted that it was unlikely Sears' total earnings will exceed last year's results.

Sears said it will take a $425 million after-tax charge in the fourth quarter and report a non-recurring net income of about $340 million in 1988.

In addition to merchandising changes, Sears will repurchase up to 40 million shares of its common stock, or about 10 percent of its 380 million shares outstanding, by mid-1989, and sell the Sears Tower, the Commercial Division of Coldwell Banker Real Estate, and two insurance divisions of its Allstate subsidiary.

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Discount Store News.

THE NEWSPAPER OF DISCOUNT RETAILING

VOL. 27, NO. 24 December 19, 1988

HYPERMARKETS: Super Stores or Super Hype?

The American debuts of Carrefour and Auchan (inset, left), and Wal-Mart's rollout of Hypermart USA, made 1988 the 'Year of the Hypermarket.' However, an exclusive DSN consumer survey reveals that despite their initial splash, hypermarkets are a risky proposition. 35

Special Report
The Future Shape of Discounting:
Membership Clubs,
Specialty Warehouses,
Electronic Retailing

5

Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

VOL. 27, NO. 24 | Published Biweekly, Every Other Monday, Monthly in December, by Lebhar-Friedman Inc. | $2 per copy | December 19, 1988

Zayre's Bittersweet Breakup

Zayre Corp. Spin-Off, Merger Lays Groundwork for Future Growth

By Kenneth M. Chanko

FRAMINGHAM, Mass. — After spinning off its warehouse clubs division and merging with TJX Cos., Zayre Corporation will cease to exist.

The Zayre announcement of its "major corporate restructuring," which is expected to be completed by spring 1989, will allow its two highly profitable operations—TJX Cos., in which Zayre Corp. currently has a controlling interest, and its warehouse clubs division—to grow as separate entities.

Both TJX Cos. and the warehouse clubs division have been highly profitable operations for Zayre Corp., especially over the last 12-month period ended Oct. 29 (see chart).

These major moves by Zayre Corp. come just five weeks after the completion of Ames Department Stores' purchase of Zayre's discount store division, which had been a cash drain on Zayre Corp.'s bottom line.

After the spin-off of the warehouse clubs divison, Zayre would then acquire the minority shares of its 83 percent-owned TJX Cos. in an exchange of 1.35 Zayre common shares for each TJX share.

Zayre Corp. will also pay shareholders about $3.50 a share in a special cash dividend.

After completion of the restructuring, Zayre Corp., at the company's June 1989 annual shareholders meeting, will be, upon approval, renamed TJX Cos. The newly merged company would be devoted to apparel retailing, since TJX consists of the off-price apparel chains T.J. Maxx and Hit or Miss, and the apparel cataloger Chadwick's of Boston.

(Continued on page 135)

Zayre Corp. to Be Two Separate Firms

Zayre-TJX Cos.

	1988*	1987**
Net Sales (Billions)	$1.8	$1.6
Operating Income (Millions)	$140.9	$126.9

BJ's-HomeClub

	1988*	1987**
Net Sales (Billions)	$1.5	$1.2
Operating Income (Millions)	$39.3	$9.8

*52 weeks ended Oct. 29, 1988
**53 weeks ended Oct. 31, 1987
Source: Zayre Corp.

Ames Makes the Cut: Sets Closing of 74 Zayre Stores

By Richard C. Halverson

ROCKY HILL, Conn. — The once-venerated Zayre name in discounting came several steps closer to extinction with the decision of Ames Department Stores to close 74 of the 392 Zayre discount stores it acquired Oct. 28.

By closing the Zayre units, Ames expects to slash the Zayre operating loss by $50 million a year. During the first nine months of 1988 alone, Zayre stores racked up an operating loss of $78.5 million.

Zayre will cease to exist in the Southeast, with the exception of Florida, where Ames will continue to operate 82 former Zayre stores after closing units in New Port Richey, Sanford and South Daytona.

Ames had said that it may keep the Zayre name only in Florida, where it is a dominant discounter. Ames is currently conducting focus group research on the Zayre name.

But Ames will close all Zayre units in Alabama, Georgia, Louisiana, Mississippi and Tennessee. Southern states account for 54 stores, or 73 percent of the closings.

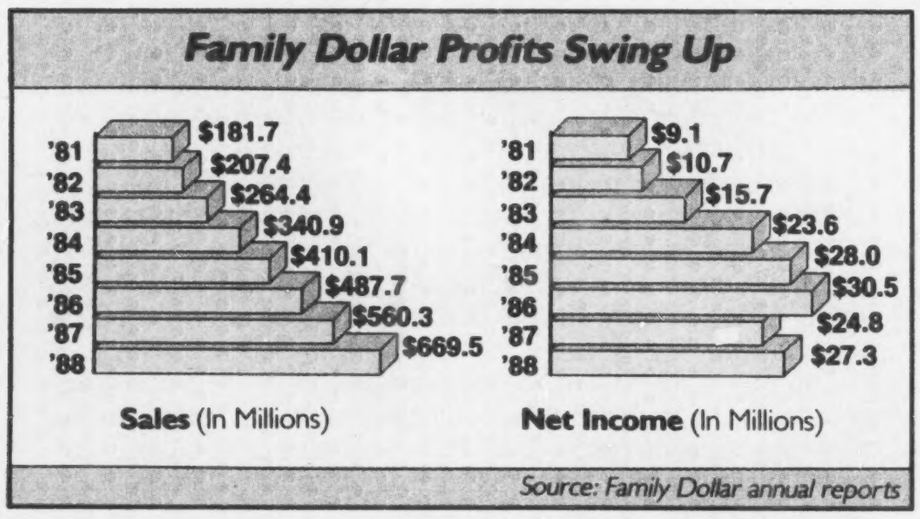
Ames ceo Peter Hollis expects Zayre stores to return to profitability by 1991. (DSN photo)

In other market retrenchments, Ames will close all six Zayre stores in Wisconsin and one Iowa unit.

The remaining 13 closings are in: New Castle, Del.; Bloomington, Bolingbrook, Crystal Lake, Des Plaines and Oak Lawn, Ill.; Pittsfield, Mass.; Xenia, Ohio; Baden, Butler and Pittsburgh (two units), Pa.; and St. Johnsbury, Vt.

In addition, Ames will convert three Massachusetts Zayre stores (Agawam, Chicopee and Holyoke) to the Ames name next February as a test of consumer reaction.

(Continued on page 135)



Sharper Mix, Pricing Pay Off at Family Dollar

By Mary Ellen Kelly

MATTHEWS, N.C. — Family Dollar is one discounter going to the bank with the conviction that not everybody wants to shop at a hypermarket, including the company's relatively new urban shoppers as well as its traditional small town customers.

A year ago, the company underwent a top management reformation that contributed in part to a financial turnaround at the 1,454-unit dollar variety chain, as did the adjustment of its assortment and pricing.

Everyday low pricing on hard goods, a lowered price ceiling on apparel, and an overall honing of merchandise assortments resulted in a 20 percent sales increase to nearly $670 million for the year ended Aug. 31, 1988. Net income rose 10 percent to $27 million in that period. While new store openings continued to represent the lion's share of sales gains, same store sales rose a respectable 5 percent.

The goals for fiscal 1989 are to open 160 stores, for a total of nearly 1,600 units in 27 states, and to maintain same store sales gains at between 4 percent and 5 percent, said George Mahoney, senior vice president. The chain will be entering Iowa, its 27th state,

(Continued on page 136)

Discounters Report Net Profit Gain

But Other Measures of Productivity Dip in Cornell Study

By Peter Hisey

NEW YORK — Discounters' after-tax net profits were up in 1987-88 over the previous year, but gross margin, pre-tax income, per-store sales, inventory turns and gross income all dipped slightly, according to a study of 24 discount retailers conducted by the International Mass Retail Association.

The study, which was conducted over the summer, revealed that discount retailers are succeeding in their attempts to control costs, particularly at the store operations, data processing and advertising/promotion levels, but that productivity (apart from bottom-line profits) slipped slightly anyway.

IMRA president Richard Hersh noted that the results were encouraging in the context of a disappointing retail year. "The rise in profits within the mass retailing industry continues to show the underlying strength of the discount retailing concept," he said.

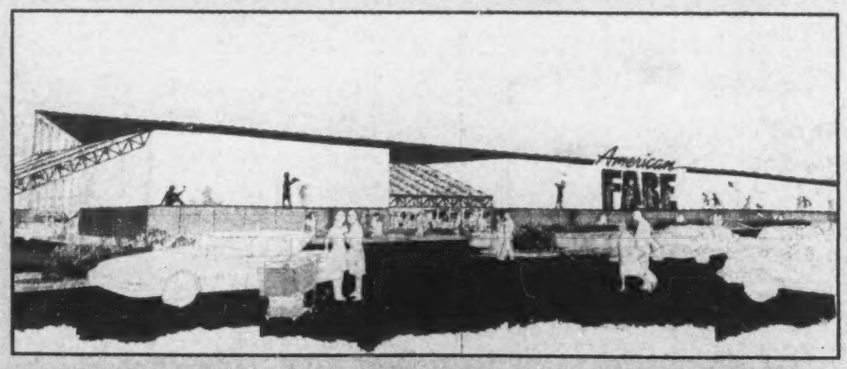
Most retail segments were affected by a year-long slump in sales of women's apparel and increasing margin pressure on products as disparate as consumer electronics, domestics and housewares.

Last year saw a round of price increases at wholesale that manufacturers typified as "long overdue."

Discounters were faced with the choice of raising prices on hundreds of products or shaving margins. Evidently, they chose a combination of the two, resulting in tighter margins and increasing consumer price resistance.

Overall, larger chains (over $1 billion in annual sales) showed stronger performance than did the smallest chains (under $300 million). For instance, larger chains averaged $10.2 million in per-store sales, compared to $5.4 million at smaller chains. After-tax income at large chains was 2.96 percent of sales; small chains lost 1.37 percent of sales, after tax, while medium-sized chains made 1.36

(Continued on page 136)



Preview: American Fare

K mart is set to open an upscale hypermarket called American Fare in Atlanta late next month. Exclusive consumer research and an artist's rendering of the new, 244,000-square-foot food/general merchandise store is included in DSN's special report on hypermarkets, super centers, membership warehouse clubs and electronic retailing, beginning on page 35.

MARKETWATCH

Target Plans a Total of 400 Stores by 1990

MINNEAPOLIS — Stepping up its 25-store expansion rate in 1988, Target plans to open 62 units next year, bringing the upscale discounter's total to 403 stores by the end of 1989. Half of the chain's growth will come from 31 former Gold Circle/Richway stores that Target acquired this year for an estimated $130 million. While many of these stores will place the discounter in new markets in the Southeast, half the proposed sites will allow the chain to bolster relatively new markets, like Detroit and the Pacific Northwest, while also filling in some existing areas. To finance the growth, parent company Dayton Hudson has slated $700 million for capital investments companywide in 1989. Target should reap the bulk of this amount.

Hechinger Scales Back Bradlees Buyouts

LANDOVER, Md. — Bradlees will continue to operate its stores in the Philadelphia market, now that Hechinger, the home center chain, has backed out of its deal to buy 14 of the 17 units. In August, Hechinger agreed to buy 47 of the 58 stores in Bradlees' Southern division for $118 million. Hechinger said terms of its agreement regarding unspecified lease provisions allowed it to back out—knocking $35 million off the price. Hechinger still intends to buy 33 other Bradlees stores in the Southern division.

The Price Co. Closes Down A.M. Lewis

SAN DIEGO — The Price Co. has closed the food distribution operation of Alfred M. Lewis Inc., a diversified food wholesaler that the firm, parent of the Price Club, bought for $48.1 million in cash in October. The purchase was basically a real estate deal and Price plans to turn Lewis' Northridge, Calif., distribution center into a Price Club. Price is converting Lewis' National City, Calif., warehouse into a meat and photo processing center for Price Club products and sold Lewis' 35-store retail operation. The future use of Lewis' Las Vegas, Phoenix and Riverside, Calif., warehouses is undetermined.

NRMA Expo to Honor Dillard, Defforey

NEW YORK — The National Retail Merchants Association will hold its 78th annual Convention and Business and Equipment Exposition Jan. 15 to 18 at the New York Hilton and Sheraton Hotels. Program participants will include William Dillard, chairman and chief executive officer of Dillard Department Stores, who will receive the NRMA's 1989 Gold Medal award, and Denis Defforey, chairman and ceo of Carrefour, who will be the recipient of the association's International Award.

Warehouse Club Names Deutchman Prez

SKOKIE, Ill. - The troubled Warehouse Club has appointed Sherwin Deutchman as president and chief operating officer, responsible for the 12-store chain's operations, merchandising and marketing. Deutchman, former executive vice president of the Denver-based Buyer's Club, reports to Warehouse Club founder Walter H. Teninga, who continues as chairman and chief executive officer. Deutchman's appointment came as the company reported sales in the fiscal year ended Sept. 30 increased 9.1 percent to $249.1 million from $228.4 million. The net loss was trimmed by almost two-thirds to $2.1 million from $6.4 million.

Court OKs American Wholesale Plan

RICHARDSON, Texas — The U.S. Bankruptcy Court for the Northern District of Texas in Dallas has approved the Chapter 11 reorganization plan of American Wholesale Club, which has just one unit in Plano, Texas. The company had earlier closed its two stores in Chicago and one in Mesquite, Texas.

HSN Sales Increase, Net Income Drops

ST. PETERSBURG, Fla. — Teleshopper Home Shopping Network reported sales of $730.1 million in the fiscal year ended Aug. 31, up 25 percent from $582.1 million in the prior year. Net income, however, plunged 39 percent to $18 million from $29.5 million.

DSN Stock Index Registers 17-Point Gain

NEW YORK — The *Discount Store News* stock index gained 1.27 percent, or 17.28 points, to close at 1,374.02 for the two weeks ended Dec. 2. In the same period, the Dow Jones Industrial Average gained 1.45 percent, or 29.87 points, to close at 2,092.28. The Warehouse Club recorded the highest percentage gain, rising 26.67 percent, or 50 cents, to $2.38. Another standout: Office Depot, which hit a new high of $18.25, for an increase of 10.61 percent, or $1.75. On the downside, Crazy Eddie logged the largest percentage decline, slumping 20.83 percent, or 16 cents, to close at 59 cents.

CVN Cos. Forms Group to Study TCI's Unsolicited Takeover Offer

By Arthur Markowitz

MINNEAPOLIS — Direct marketer CVN Cos. has set up a special board of directors committee that at presstime was studying an unsolicited takeover offer of approximately $313 million from Tele-Communications, Inc.

While CVN Cos. is a diversified $587.7 million firm, TCI's main interest is the retailer's largest operation, the $352 million teleshopper Cable Value Network, which reaches about 20 million households on over 1,800 cable systems.

TCI, the nation's leading multi-system cable operator (MSO), has offered to buy all of CVN Cos.' common stock for $18 a share, $14 in cash and a subordinate debt security with a $4 face value. TCI and affiliated companies currently own 3,664,000 CVN Cos. shares, or about 21 percent of the outstanding stock, and hold warrants to purchase an additional 4.6 million shares.

Dr. John C. Malone, TCI president, said that CVN Cos. management and directors and MSO operators that helped found the retailer "would be given the opportunity to participate in the [takeover] group." TCI leads a consortium of about 18 MSOs that co-founded CVN together with closeouter C.O.M.B. in the spring of 1986. C.O.M.B. merged with its CVN subsidiary in August 1987 to form CVN Cos.

Heading up the retailer's special committee is Harold Roitenberg, a board member since 1986 and an associate of two major CVN Cos. shareholders, chairman Theodore Deikel and Minneapolis investor Irwin Jacobs, who is a board member. Deikel and Jacobs together own about a 30 percent stake in the firm. Roitenberg, who operates Roi-

(Continued on page 134)

CVN Cos.

Headquarters: Minneapolis, Minn.
Chairman: Theodore Deikel

	1988	1987
Corp. Sales		
(In Millions)	$587.7*	$166.5
Teleshopping	352.0*	92.0*
Other**	235.7*	76.5*
Net Income		
(In Millions)	11.4	(1.1)

**Estimate*
***Includes direct mail, wholesale, remanufacturing*
Source: company reports

New Best Board Names Top Execs

RICHMOND, Va. — Best Products has two new top executives and a restructured board of directors as a result of Adler & Shaykin's $1.1 leveraged buyout of the $2.1 billion cataloger.

Jerry E. Goldress was elected chairman and chief executive officer, succeeding Robert E.R. Huntley, while Ben Weinstein was named president and chief operating officer, succeeding William F. Costello.

Goldress is a general partner of Adler & Shaykin, a New York investment company, and president of Grisanti, Galaf and Goldress Inc., a Torrance, Calif., management consulting firm, whose partners include Weinstein. The consulting firm specializes in management of turnaround situations.

Huntley and Costello, who had previously indicated they expected to remain with Best, "resigned to pursue other interests," according to the cataloger. Huntley has joined Hunton & Williams, Richmond's largest law firm.

In a related move, Moody's Investors Service has lowered its rating on the cataloger's senior subordinated notes from B1 to B3 "because of the substantial leverage incurred" by the leveraged buyout. Moody's "anticipates" the LBO "should make Best unprofitable for several years."

Best's new board, an interim body until the legal aspects of the LBO are completed early next year, is composed of

(Continued on page 134)

Circuit City Mall Prototype Opens

RICHMOND, Va. — Circuit City, the consumer electronics chain based here, opened its first "mall" store, a pared down version of its specialty stores called Impulse, in Baltimore in mid-November, and plans to add at least two more early next year. Up to 15 more are planned for 1989.

The 2,000-square-foot stores concentrate on limited product areas, including personal electronics like telephones, TADs and audio/video accessories, small TVs and camcorders, and compact audio products. Prices will be slightly higher than area Cir-

(Continued on page 134)

Telaction Refines Service For Growing Viewership

SCHAUMBURG, Ill. — Telaction, the interactive teleshopper, has quintupled its viewer reach to 26,000 potential customers and inaugurated three refinements to make buying goods through its service seem more like traditional store shopping along with being more convenient.

The telemarketer has also added two more specialty retailers to expand the merchandise available from its lineup of three dozen merchants and service providers. They are Gift Sender, the Sears operation that merchandises only name brand goods through interactive kiosks (see *DSN*, June 20, page 1) and Reliable Corp., a Chicago-based home office supply house that distributes a home office merchandise catalog.

The moves by the JCPenney-owned video retailer were geared to the upcoming holiday sales period. Telaction expects its current reach of 26,000 subscribers to two suburban Chicago cable systems to grow to about 30,000 potential consumers by the end of the year. Its growth for the next 12 months will focus on the Windy City before a national expansion move is launched in 1990.

(Continued on page 136)

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Caldor, Venture, Target Lead Test of EAS System

(Continued from page 8)

High-risk goods such as VCRs, CD players and discs, and videotaped movies, are among the items tagged on a rotating basis.

Target views EAS tags as a deterrent, rather than a means to arrest more shoplifters, its spokesman said.

"We want to keep crooks out of the store, not catch shoplifters."

With a cost of between 3 cents and 5 cents each, depending on volume, the Checkpoint tag incorporates a miniature radio circuit, said Alex Beller, vice president, marketing. The heart of the Checkpoint system is a radio transmitter and receiver. If the EAS tag isn't deactivated, its circuit changes the radio signal the receiver is hearing as the protected item passes by the monitor and trips an alarm.

Deactivation burns out the tag's circuit, so it can't interfere with the radio signal.

Of the 59 Target stores, one in Minneapolis is using the new Symbol scanning gun that incorporates the Checkpoint deactivation mechanism, Beller said, and the remaining stores are slated to take delivery early next year.

Meanwhile, the other stores are using a counter-mounted pad for deactivation, Beller said. When the new Symbol guns arrive, Target will remove the pad and plug in the deactivating scanner guns.

For now, Target is using a separate price tag, instead of printing bar codes and prices on the Checkpoint EAS tag. The EAS tag bears only a dummy bar code, intended to deceive shoplifters. Accordingly, scanning and deactivation requires two steps, but the extra time required is "almost imperceptible," its spokesman said.

Discounter opposition to EAS has stemmed from the extra time and labor costs to tag merchandise—and to deactivate those tags at checkout. Now, new technology makes it possible to combine deactivation with scanning price tags, thereby saving time at checkout.

When the Symbol guns arrive, Target will print bar codes and prices on its EAS tags, and scanning and deactivation will become a single step, Beller said.

In its move into EAS, Caldor, Norwalk, Conn., skipped ahead of basic scanning in testing the EAS system. Caldor plans to test EAS in a number of stores by year-end. Caldor executives were unavailable for comment.

But Kozozenski, from Venture, speculated that shrinkage was so high that Caldor couldn't wait for scanning to be installed.

Caldor chairman Don R. Clarke told associates in a June newsletter that Caldor's "current shortage reduction goal is 2.8 percent" and 2.4 percent in the fall of 1988. In comparison, the shrink rate for Wal-Mart ranges from 1 percent to 1.5 percent.

The monitors and deactivation gear to equip each Target store costs between $30,000 and $40,000, Beller said.

The capital cost for each Caldor store ran closer to $50,000, he said.

Wal-Mart has visited Target to see its EAS system in operation, Beller said. A Wal-Mart loss prevention executive said that his chain will insist on integrated scanning and deactivation equipment before making any move.

Ross Stores uses Symbol scanning guns in all its stores but uses Checkpoint's counter-mounted deactivation pad, said David Whitney, loss prevention director.

Ross tags at least 25 percent of its apparel and accessories, Whitney said, and attempts to keep shoplifters off-guard by using six styles of EAS tags. The same item might carry an adhesive label, a hangtag, a drop-in tag—or all three.

Under Ross' system, clerks set each item on the Checkpoint deactivation pad while they scan the price. The pad, with its reach, cancels all tags at once. Clerks don't have to know whether an item is tagged or stop to find each tag and touch it to the pad.

During a 10-store test that lasted two years, Ross experienced a 65 percent reduction in shoplifting, Whitney said. Ross will recoup its investment of $23,000 per store in 2½ years, he said.

Among other discounter proponents of EAS, Carrefour, the French-owned hypermarket in Philadelphia, uses the Knogo system there, as well as at its 115 other hypermarkets in Europe and South America.

Lionel Leisure also uses Knogo to protect its Kiddie City stores in downtown Philadelphia and Manhattan.

And Clover, Philadelphia, is testing two competing EAS systems in four stores. It ordered Checkpoint for two stores, and will compare results in two others that will get the Sensormatic system, said Clover general manager Warren White.

Ames, Rocky Hill, Conn., has concluded—with negative results—a 15-store EAS test of the Knogo system. But it hasn't given up on EAS.

Instead of protecting an entire store with EAS, though, Ames probably will protect a single department, most likely CE, which would be enclosed in a bullpen with its own checkout, chief financial officer Duane Wolter said.

Consumer Brand Preference in Health and Beauty Aids

Top Brands	Discount Shoppers	K mart	Wal-Mart	Zayre	Target
Crest	11.5%	11.0%	10.0%	10.5%	15.6%
Colgate	9.2	9.7	12.0	11.4	8.2
Revlon	6.0	6.3	6.0	3.8	8.2
Ivory	5.1	4.3	6.0	6.7	5.7
Clairol	4.6	4.0	3.0	2.9	5.7
Kleenex	4.3	4.7	6.0	1.9	5.7
Dove	4.3	4.0	4.0	4.8	3.3
Charmin	4.0	3.7	6.0	3.8	4.9
Mennen	3.4	3.7	2.0	1.9	4.1
Johnson & Johnson	3.2	3.7	3.0	1.9	2.5
Suave	3.2	3.3	3.0	3.8	2.5

In the Oct. 24 issue of Discount Store News *(Top Consumer Brands Report), Ivory and Dove were erroneously grouped together as Lever Brothers products and came in third on this chart. Ivory is a Procter & Gamble product and should not have been combined with Dove. The results of consumer brand preferences in health and beauty aids have been corrected and appear in the above chart.*

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HYPERMARKETS: Super Stores or Super Hype?

Despite the hoopla surrounding the opening of six hypermarkets in the United States during the past 13 months, few retail industry observers are hailing these mammoth 200,000-square-foot-plus stores that sell food, apparel and general merchandise as the next great retailing phenomenon.

Before Bentonville, Ark.-based discounter Wal-Mart opened its 222,000-square-foot Hypermart USA in Garland, Texas (outside Dallas) on Dec. 28, 1987, the only hypermarket on U.S. soil was Biggs' hypermarket in Cincinnati, which opened in October 1984.

As their growth is hemmed in by government restrictions in their home countries, European hypermarket operators view the U.S. market as one of unlimited opportunity. This year, Carrefour and Auchan joined Biggs as European operators of U.S. hypermarkets.

Carrefour, the European-based leader in worldwide hypermarket sales, opened a unit in Philadelphia in February. Auchan, another leading European hypermarket operator, made its debut in Houston in October.

And, Leclerc, another major European hypermarket chain, has set up offices outside Washington, D.C., to study a possible entry into the U.S. market.

Meanwhile, U.S. retailers have not stood pat. Wal-Mart opened two more Hypermart USAs—in Topeka, Kan., and Arlington, Texas. K mart, the nation's largest discount chain, announced plans to open its American Fare hypermarket in Atlanta next month. And, Super Valu, a Minneapolis-based food distributor that is a partner with Euromarché in the Biggs venture and is the parent firm of discounter ShopKo, announced plans to open two Twin Valu hypermarkets in Ohio next year.

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Special Report:

Biggs	43	Wal-Mart SuperCenter	93
Hypermart USA	44	Super K mart	94
Carrefour	47	Meijer	96
Auchan	51	Fred Meyer	99
American Fare	53	Membership Clubs	101
Twin Valu	54	Specialty Warehouses	107
European Hypermarkets	59	Electronic Retailing	111

Hypermarkets

After Hype, Shoppers Not Returning

(Continued from page 35)

Undeniably, the integration of more food and grocery products into the standard discount/general merchandise store format will accelerate in the coming years as chains strive for ways to increase traffic and become destination outlets for a wide variety of merchandise.

However, it remains highly debatable that today's time-crunched consumer truly wants to walk through a store large enough to contain a football field, a baseball field, a basketball court, an Olympic-sized swimming pool, three tennis courts and a typical par 3 golf hole. (Really, that's how Wal-Mart describes the size of Hypermart USA!)

Also lost in the hypermarket media hype is the fact that selling food and general merchandise under one roof is not a new concept.

"There's not really a lot of magic in combining the two concepts [food and general merchandise]," commented Charles Cerankosky, a retail analyst with Prescott Ball & Turben in Cleveland. "They represent two different shopping trips. If the neighborhood needs both a grocery store and a discount store, fine. Otherwise, one will drag the other down."

Old-time discounters like FedMart, Two Guys, and Great Eastern were pioneers in combining the discount store and supermarket formats. Executives at Grand Rapids, Mich.-based Meijer and Portland, Ore.-based Fred Meyer, two chains that have successfully integrated the two formats for many years, must shake their heads and wonder what all the excitement is about.

"When we started Target, it sold both food and general merchandise," noted Kenneth Macke, chairman of Dayton Hudson, parent of discounter Target Stores. "We discontinued food in 1973 and our general merchandise business continued to grow. Now, we are looking at the potential of food and general merchandise coming back together."

However, despite the hypermarket efforts of Target's rivals K mart and Wal-Mart, Macke emphasized that Target has "no announced plans to go into the food business in a major way at this time."

A major new research report conducted exclusively for *DSN* by Leo J. Shapiro & Associates, a Chicago-based market research firm, reveals that the hypermarkets currently operated by domestic and foreign retailers in this country so far have met widely varying degrees of success in wooing U.S. consumers.

Based on 1,300 interviews conducted in August and September 1988, the study examined consumer acceptance of Carrefour, Hypermart USA and Biggs in Philadelphia, Dallas and Cincinnati.

Hypermarkets are off to a fast start in terms of consumer recognition. News of a hypermarket spreads quickly even in large metropolitan areas.

In Dallas, more than nine out of 10 consumers were aware of the existence of Hypermart USA. Over eight out of 10 Philadelphians were aware of Carrefour. In Topeka, Hypermart USA was familiar to 94 percent of the city's consumers. Biggs, the granddaddy of hypermarkets here, had an awareness rating of 97 percent after four years of operation in Cincinnati.

In the Dallas and Philadelphia market areas, each with populations of over 1 million, more than one-third of the consumers had been to Hypermart USA (38 percent) and Carrefour (34 percent). In Topeka, a market area of 220,000 persons, nearly twice as high a percentage of consumers had shopped at Hypermart USA (64 percent). In Cincinnati, two-thirds of the respondents said they had visited Biggs in the last four years.

However, many shoppers who have visited a hypermarket are uncertain about making future shopping trips to one. Fewer than one out of four shoppers who visited Carrefour (23 percent), Biggs (22 percent), and Hypermart USA in Dallas (24 percent) said they were sure they would make another visit within the next four weeks. Between 40 percent and 50 percent said they "may" or "probably will" visit the hypermarket again within a month. A troubling, for hypermarket operators, one-third to one-fourth of the shoppers said they definitely would not shop again within the coming four-week period.

Only in Topeka was the trend broken. Four out of 10 shoppers who visited Hypermart USA there said they would definitely shop again within a month—only 18 percent ruled out a return visit.

As in Europe, most U.S. hypermarkets are considered mainly food retailers by consumers. At Carrefour in Philadelphia, shoppers said that 69 percent of their most recent expenditure there was for food. At Biggs in Cincinnati, the food percentage rose to a whopping 90 percent. At Hypermart USA in Dallas, 74 percent of its shoppers' most recent purchase was for food.

Only in the Topeka Hypermart USA did general merchandise sales approach food sales in volume—with 52 percent of the average shopper's last purchase spent on food.

It is this perception of hypermarkets as mainly food stores that appears to be discouraging repeat visits. Shoppers in the survey said they felt uncertain about making another trip to the hypermarket because they were hesitant about having to travel a long distance just for food shopping. More regular hypermarket customers—those who had made 10 or more visits—tended to live within 17 minutes of the store compared to light shoppers (one or two visits) who reported traveling an average of 25 minutes.

Although most shoppers mainly purchased food at the hypermarket they last visited, few named a hypermarket when asked where they are most likely to do their weekly or stock-up food shopping.

Nevertheless, the hypermarkets appear to be taking more sales from local food supermarkets than from discount department stores. Six out of 10 hypermarket customers said they would have shopped a food store if they hadn't gone to a hypermarket.

(Continued on page 40)

Hypermarkets Off to Fast Start

Hypermarket[1]	Date of Market Entry	Percent of Shoppers Aware of Hypermarket	Percent Who Shopped Hypermarket	Market Size
Biggs, Cincinnati[2]	1984	97%	67%	1.1 million
Hypermart USA, Dallas	12/87	94	38	1.1 million
Hypermart USA, Topeka	1/88	94	66	220,000
Carrefour, Philadelphia	2/88	84	34	1.5 million

[1]Following completion of the study in September 1988, Auchan opened a hypermarket in Houston and Wal-Mart opened a Hypermart USA in Arlington, Texas, outside of Dallas.
[2]Biggs' second Cincinnati hypermarket opened in September 1987.

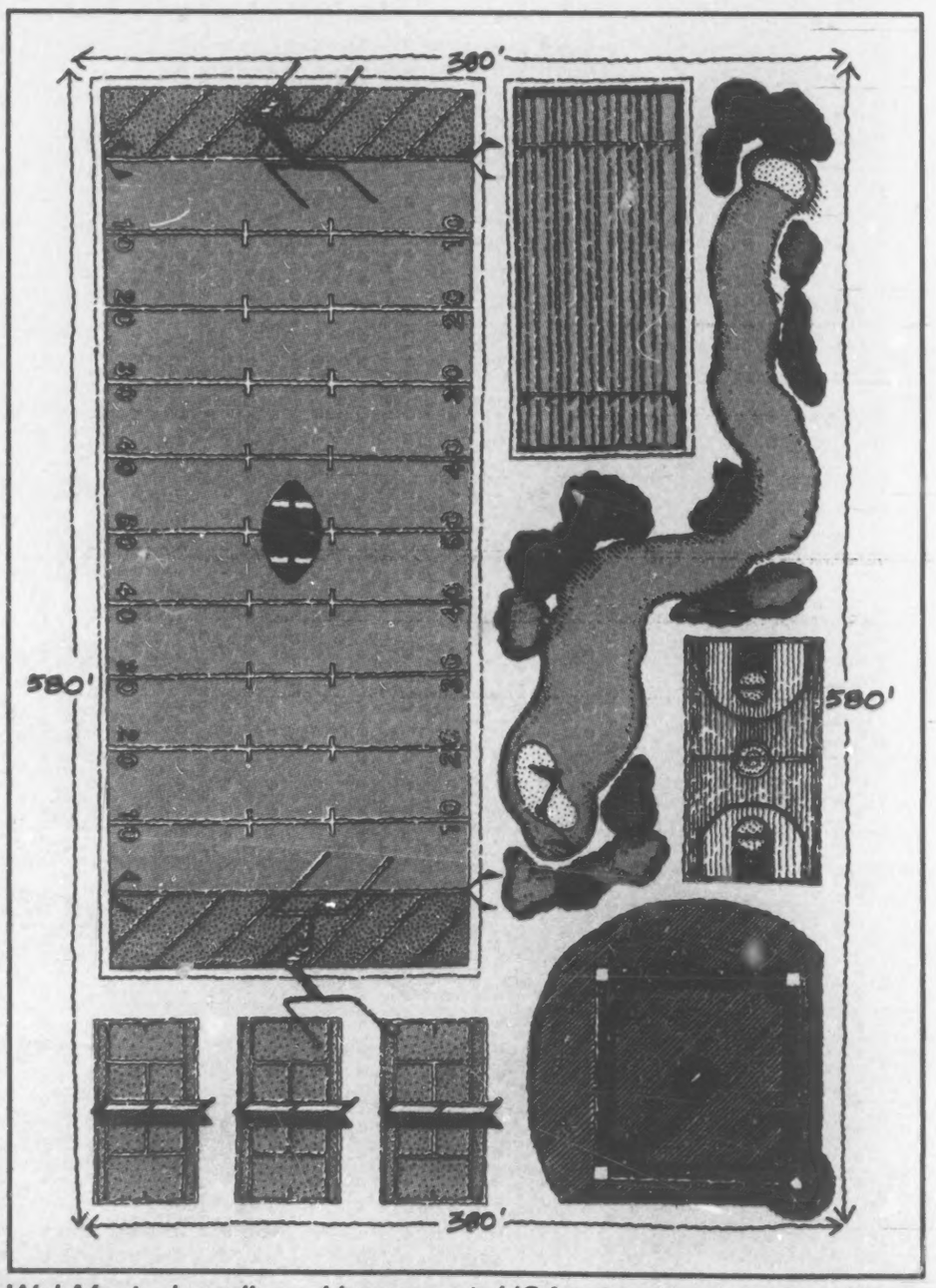
Source: Discount Store News/Leo J. Shapiro & Assoc.

Hypermarkets, even those opened relatively recently, have high consumer recognition in their market areas. Hypermart USA in Topeka, open since January, has seen shopping visits from two-thirds of area consumers.

Sharp Prices Attract Hypermarket Shoppers

Reasons Why They Shop Hypermarkets	All Hypermarket Shoppers		
	Number of Visits		
	1-2	3-9	10+
Prices (Net)	41%	64%	77%
Lower Prices	40	60	72
Sales/Specials	1	7	7
Double Coupons	—	1	3
One-Stop Shopping/ Big Store	9	10	16
Variety/Selection	7	13	11
Quality (Net)	4	2	3
Quality Produce	2	1	2
Quality Merchandise	3	1	1
Carry Brand Names	3	1	1
Convenient Location	1	3	4
Other	2	7	10

Source: Discount Store News/Leo J. Shapiro & Assoc.



Wal-Mart describes Hypermart USA stores as being large enough to contain a football field, a baseball field, a basketball court, an Olympic-sized swimming pool, three tennis courts and a typical par 3 hole in a golf course.

Hypermarkets Impact Business at Supermarkets, Discount Stores

Percent of hypermarket shoppers who would have shopped at another type of store if not at a hypermarket:

Type of Store	All Hypermarket shoppers	Hypermart USA Topeka	Hypermart USA Dallas	Carrefour Philadelphia	Biggs Cincinnati
Food Stores	60%	50%	55%	66%	70%
Discount Department Stores	28	45	28	15	20
National Merchandisers (Sears, JCPenney, Ward)	5	7	11	5	1
Department Stores	3	3	—	—	6
Other	2	—	11	—	—

Source: Discount Store News/Leo J. Shapiro & Assoc.

Super Stores or Super Hype?

(Continued from page 39)

Discount stores were affected somewhat less by the hypermarket competitor. Twenty-eight percent of the hypermarket shoppers said a discount store would have been their alternative to their last visit to a hypermarket.

National general merchandisers such as Sears, Montgomery Ward and JCPenney were named as competition by only one out of 20 hypermarket shoppers, while full-price department stores would have been the shopping alternative for only 3 percent.

Of all the hypermarkets studied, Hypermart USA appears to be the toughest competitor for discount department stores. Nearly four out of 10 Hypermart USA shoppers in Dallas and Topeka said that a discount store would have been their alternate shopping choice. Less than two out of 10 shoppers of any of the European-style hypermarkets (Biggs and Carrefour) named a discount store as their alternate choice.

Moreover, in Topeka and Dallas, Wal-Mart's Hypermart USA attracted 12 percent of its trips from shoppers who would have visited a Wal-Mart discount department store in those areas. The damage Hypermart USA inflicted on competing discounters was even greater: 29 percent of its shoppers in Topeka would have shopped K mart; 16 percent of its shoppers in Dallas would have shopped Target.

Everyday Low Prices Key

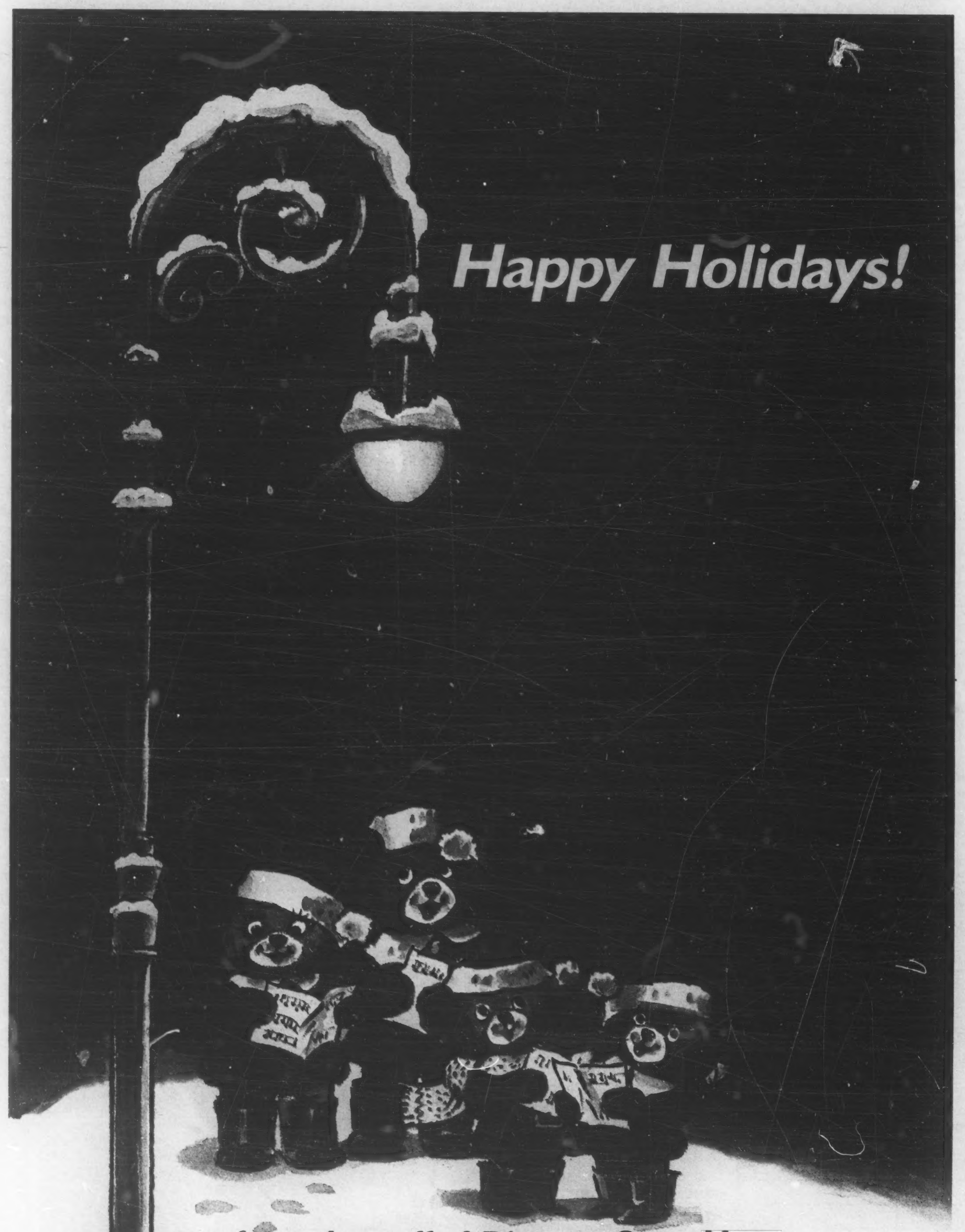
Despite the lure of offering one-stop shopping, hypermarkets' everyday low prices were the main attraction to most consumers. When frequent shoppers spoke about what they like about a hypermarket, their comments centered around price, and specifically, low prices that they can always expect. Relatively few comments were made about merchandise variety or the convenience of one-stop shopping. Even fewer commented favorably about brand selection or merchandise quality.

The study suggests that the availability of one-stop shopping is a much overrated factor in drawing customers. One out of five of the shoppers who said they were uncertain about making another visit to a hypermarket cited the difficulty of shopping that type of store as a reason for their aversion to the concept. The enormous size of the store is definitely a factor in discouraging repeat business. However, only 3 percent of frequent shoppers complained of difficulty shopping.

Contrary to the popular opinion that hypermarkets require the support of a large population in its trading area, the study shows that hypermarkets are actually more significant centers of retailing in small metropolitan areas.

For example, in Topeka, shoppers were more confident of making a return visit to Hypermart USA than were shoppers in Dallas, Philadelphia or Cincinnati. Six out of 10 Topekans said they would definitely or probably return to Hypermart USA within four weeks of the survey.

Significantly, sales in Topeka were divided almost evenly between food and general merchandise. With a higher rate of return business and a higher percentage of general merchandise sales, the hypermarket in Topeka appears able to overcome its more limited customer pool.



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Euro-Hypermarkets

Maturing Industry Confronts Change

The infant U.S. hypermarket industry owes its origins to a distinctly European retailing concept, the hypermarché. A look at the mature hypermarket industry in Europe might offer some clues as to how American hypermarkets will do in the coming years.

The two huge markets are distinctly different, but certain purchasing patterns and shopper preferences could prove to be universal.

A 1987 report published by London-based Euromonitor entitled, "Hypermarkets and Superstores in Europe to 1990," suggests that the European hypermarket operator is confronted with a problem the U.S. companies have yet to face: opposition to expansion from land conservation groups and small but politically powerful local retailers.

Another problem gnawing at European hypermarket operators is their inability to strike a balance between general merchandise and food sales. Both their European and U.S. operations draw more than half their sales from the lower-margin food side of the business.

Some European hypermarket operators are actually considering leasing out the general merchandise sections of the stores because they have not discovered a successful approach to selling general merchandise, according to the Euromonitor study.

The study stated that changes that soon to be incorporated in European hypermarkets will include:

- An attempt to push into the general merchandise business to expand sales and earnings;
- Accelerated mergers and acquisitions among the various hypermarket companies, similar to what is currently happening in the U.S. discount store market;
- Increased use of credit cards and store cards;
- Expansion of direct debiting systems;
- Widespread use of scanning at checkout.

The average size of the European hypermarket, as gauged by the Euromonitor study, appears small by U.S. standards. In contrast to the typically immense size of an American hypermarket, the European definition of a hypermarket includes stores as small as 27,000 square feet as long as they sell both general merchandise and food.

The European hypermarket operator is confronted with a problem the U.S. companies have yet to face: opposition to expansion from land conservation groups and small but politically powerful local retailers.

France

France is a success story for hypermarket operators. Store count grew nearly 50 percent between 1980 and 1986 to 629 units, and market saturation has yet to be reached.

The average selling area of the hypermarket in France is 60,000 square feet, significantly smaller than the size of Wal-Mart's Hypermart USA, but the number of hypermarkets per person in France is the second-highest in Europe. There is one hypermarket for every 87,000 French citizens while the European average is one store per 130,000 persons.

During the early '80s nearly 25 percent of all hypermarkets in France had sales space of 160,000 square feet or larger. After 1982 the percentage of stores that fell into the largest store category plummeted to about 1 percent a year later. Retailers suddenly shifted to a selling area which was between 80,500 square feet and 159,000 square feet. The percentage of stores smaller than 80,000 square feet remained a fairly consistent 75 percent from 1980 to 1986.

The French hypermarkets, like most European hypermarkets, command a much higher market share in food than in general merchandise. While French hypermarkets garner roughly 18 percent of all food sales in the country, non-food sales through hypermarkets are less than 8 percent. General merchandise represents about 25 percent of sales at the smaller sized hypermarkets but climbs to 44 percent in the larger stores.

The tendency for general merchandise sales to rise faster than food sales as store size increases prevails in other European countries as well. The primary reason for this is that more selling space is devoted to general merchandise in the larger stores.

Yet the Euromonitor research also states that since 1980 "foods have grown more rapidly despite attempts to push non-foods in recent years."

Even though the percentage of general merchandise to food sales has shifted in larger stores, the overall hypermarket industry in France went from a 44/56 general merchandise/food shift in 1980 to a 40/60 split four years later.

Hypermarkets in Europe: 1980-1990*

Country	Number of Units 1980	1986	Percent Change	1990*	Average Sales Area (In Square Feet)
France	421	629	49%	750	59.1
Germany	813	952	17	1,000	63.4
United Kingdom	201	346	72	500	39.8
Italy	12	22	83	100	73.1
Spain	34	70	106	150	50.5
Belgium	77	88	14	100	65.6
Netherlands	37	34	(8)	50	49.5
Norway	67	80	19	90	32.6
Sweden	65	75	15	80	59.1
Denmark	29	45	55	60	53.8
Finland	27	35	30	50	51.6
Switzerland	81	85	5	90	49.5
Austria	51	60	18	70	49.5
Total	1,915	2,521	32	3,090	55.9

*Estimate

Source: Euromonitor, London

West Germany

West Germans have also embraced the hypermarket concept, with 952 units in operation in 1986, or about 64,500 shoppers per store, the highest density of any country. Food is a primary purchase in these stores, and hypermarkets account for 23 percent of all food sales in West Germany even though the number of units represent only 2 percent of all stores selling food in the country.

Supermarkets, which generate 36 percent of all food sales, represent 10 percent of all stores selling food. Most of the country (76 percent) tends to shop for groceries in smaller food stores, which numbered 50,200 in 1985. The non-self-service food store, of which there are roughly 7,800, are frequented by about 12 percent of West Germans.

While Germany has the most hypermarkets of any European country, the food sales are very low, estimated to be $135 per person in 1983, at a time when store density was 70,000 people per store. It would appear that the German market represents one of the few countries where hypermarkets are not viewed as a food-only store.

Great Britain

While this region was slow to accept the hypermarket concept, unit growth in Great Britain rose 72 percent between 1980 and 1986.

The smaller hypermarkets (between 27,000 and 54,000 square feet in sales area) referred to here as "superstores," have outpaced the unit growth of the larger hypermarkets. Between 1980 and 1986, the number of superstores grew by 117 percent to 363 units while hypermarket locations were up 47 percent to 50 units. The average sales area dropped by about 5 percent between 1980 and 1986 from 43,000 square feet to 40,300 square feet.

Compared to other European countries, Great Britain has one of the lowest number of stores-per-person ratios. In prosperous southeast England, there was estimated to be 176,000 potential shoppers per store in 1986.

However, more hypermarkets and superstores are being built in the poorer areas such as Wales and northern England as retailers anticipate a more loyal customer base among those forced to be budget-conscious. The store density in the poorer regions is between 90,000 to 105,000 persons per store.

Italy

Italy has been targeted as a future growth area for hypermarket retailers due to low penetration, but only if indigenous retailers and local politicians grant hypermarkets further entry.

At the latest count (1987), there were 22 hypermarkets in the country, averaging 73,000 square feet in sales area, somewhat larger than the average in other European countries.

Two hypermarkets dominate the burgeoning Italian market: Rinascente and Euromercato, each taking a different approach to retailing.

The eight Rinascente stores in operation in 1987 have an average selling area size of 75,500 square feet and concentrate primarily on general merchandise.

The opposite is true at Euromercato. The company had four stores in operation in 1987, with an average selling area of nearly 125,000 square feet. The stores are large, and similar to Wal-Mart's Hypermart USA in that they stock few items, but carry a great depth of merchandise.

Spain

Resistance to hypermarkets by local retailing companies is gradually dissolving. The Euromonitor study estimated that the number of hypermarkets in the country is now above 80, more than twice what it was in 1980.

Among factors holding back further unit growth include: a low level of car ownership; few towns with populations above 90,000; numerous independent family shops; and low sales per square foot and profits compared with other European countries. However, the incentive is present in the form of sales potential.

While Spain is considered to still be mostly virgin territory for hypermarket operators, the Euromonitor report stated that the growth potential is low because "the Spanish standard of living and traditional retailing habits are not thought to allow room for further development in the immediate future."

Belgium

The birthplace of hypermarkets now has one unit for every 112,000 residents. Belgian hypermarkets are generally larger than all other European outlets. The average store size is slightly inflated, however, by the inclusion of 16 stores called "megasupermarkets" which are larger than some European hypermarkets, with a 32,000-square-foot selling area.

The country is among several which is considered to be at the saturation point in terms of hypermarket retailing. Others include Switzerland, Norway, Sweden and Austria.

WAL-MART SUPERCENTER

QUASI-HYPERMARKETS

Wal-Mart's SuperCenter concept combines a traditional discount store and a supermarket under one roof—like a hypermarket—but in stores of about half the square footage of most hypermarkets, and with narrower and deeper assortments and no ancillary specialty stores. (DSN photos)

Wal-Mart Hatches a 'Super' Winner

Wal-Mart, forget about Hypermart USA and stick with the Wal-Mart SuperCenters.

That is the message from consumers surveyed in an exclusive *DSN* study that tracked shopper buying patterns and attitudes at these two new and innovative retailing formats.

The study, conducted by Leo J. Shapiro and Associates, a Chicago-based market research firm, surveyed consumers shopping at Wal-Mart's two vastly different new formats: the Wal-Mart SuperCenter in Washington, Mo., a quasi-hypermarket that combines a discount store and a supermarket, and the huge warehouse club-type Hypermart USAs in Dallas and Topeka, Kan., as well as two standard hypermarkets, Biggs in Cincinnati and Carrefour in Philadelphia.

Telephone interviews conducted with 300 households in and around Washington (about 50 miles west of St. Louis), about six months after the SuperCenter opened revealed that the new Wal-Mart concept has already achieved an awareness level comparable to that of the older Carrefour and Biggs as well as the two Hypermart USAs.

The study found that the SuperCenter, which serves a two-county area of roughly 120,000 people, has gained a stronger command over its market than any of the existing hypermarkets in terms of consumer awareness, numbers visiting the store and shopping frequency.

But there's a downside to the Wal-Mart SuperCenter's success. The store has a slightly greater negative impact on Wal-Mart's traditional discount stores than do the other hypermarkets. One in five Wal-Mart SuperCenter shoppers said that on their last shopping trip they would have gone to a traditional Wal-Mart if they hadn't visited the Washington SuperCenter.

However, this figure drops to one in 10 among SuperCenter shoppers who have visited the store 10 or more times, a strong indication of the concept's positive impact among consumers and the store's exceptional attraction.

The discounter subsequently opened another Hypermart USA in Arlington, Texas, a suburb of Dallas, and a Wal-Mart SuperCenter in Wagoner, Okla. While only one Hypermart USA is set for next year, in Kansas City, Mo., four more Wal-Mart SuperCenters are already on the drawing board, with one in Farmington, Mo., due to open first.

Wal-Mart's SuperCenter concept combines a traditional discount store and a supermarket under one roof. Its scaled-down size—about half the footage of most hypermarkets—narrower but deeper assortments and lack of ancillary specialty stores are the most marked differences between SuperCenters and such traditional hypermarkets as Carrefour, Biggs or Auchan.

Other retailers are enthralled by the SuperCenter concept and Wal-Mart's rival K mart has already emulated the idea by opening two Super K marts—remodeled and expanded K marts—in Kankakee, Ill., and Clinton, Iowa.

Wal-Mart is currently probing the concept's viability in different sized stores, ranging from the Washington, unit with 126,000 square feet, to Wagoner, Okla.'s trimmed back 94,000-square-foot unit, and the planned Farmington, Mo.'s expanded 152,000-square-foot unit.

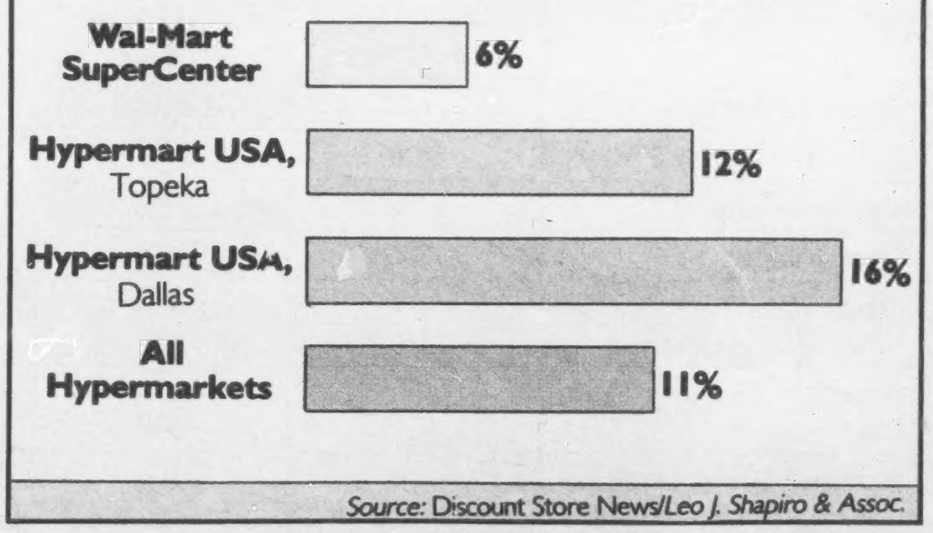
Regardless of the size, if the consumer reaction to the Washington Wal-Mart SuperCenter is any indication, the discounter has a winner in its mini-hypermarket format.

The *DSN* study found that of those interviewed in each of the markets with either a full-size or scaled back hypermarket, 96.3 percent were aware of the Wal-Mart SuperCenter, while 94.4 percent knew of Hypermart USA in Dallas, 94 percent in Topeka and 83.6 percent had heard of Carrefour in Philadelphia. Only Biggs, which has been in operation in Cincinnati for over four years, has a higher recog-

(Continued on page 94)

SuperCenter Shoppers Experience Less Difficulty in Store

Percent of respondents who complained of difficulty shopping at hypermarkets or Wal-Mart SuperCenter:



Source: Discount Store News/Leo J. Shapiro & Assoc.

Super K mart

QUASI-HYPERMARKETS

New Super K marts Test Grocery Sales

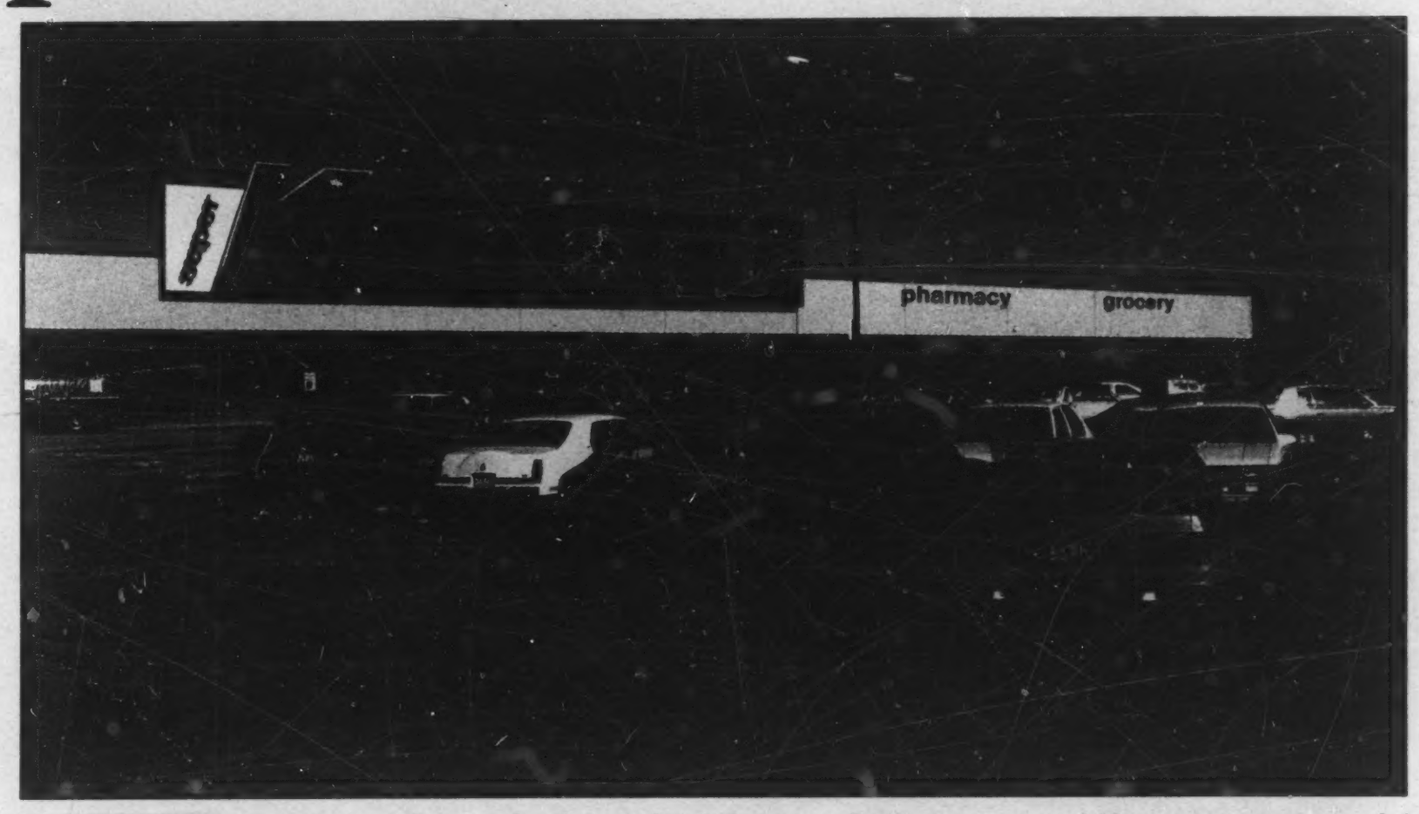
The unveiling last month of two Super K mart units that combine grocery and general merchandise will be an important test of a new concept for the nation's No. 1 discounter.

The two test stores—in Kankakee, Ill., and Clinton, Iowa—could do for K mart Corp. what the SuperCenter stores have done for Wal-Mart—that is, provide an effective grocery/general merchandise retail format alternative to hypermarkets.

Top retail executives, industry observers and *DSN*'s Leo J. Shapiro consumer research all point to strong consumer acceptance of a mid-size—100,000 square feet to 150,000 square feet—food/non-food retail alternative to the 200,000-square-foot-plus hypermarkets. There is some industry concern that the mammoth hypermarkets just might be too formidable a shopping experience for many consumers.

K mart has added an additional 20,000 square feet to 23,000 square feet of space to both units to house the grocery departments. Total selling space ranges between 100,000 square feet and 110,000 square feet, making the Super K marts slightly smaller than Wal-Mart's first SuperCenter store in Washington, Mo. The two Super K marts were remodeled from existing units, while the SuperCenter was newly built.

The Super K mart stores offer prepackaged meats, dry goods, frozen foods, produce and dairy products. However, neither store has a fresh meat counter, bakery, fish or service deli department.



Super K mart—a new test format for the nation's largest discounter—could be a very successful alternative to hypermarkets, combining food and general merchandise in a mid-size unit. (DSN photo)

The grocery departments have been installed in adjacent vacant space that was formerly occupied by a supermarket company. Other than the added grocery department, these two Super K marts look the same as normal K mart discount stores. There is no separate entrance for the grocery department.

Bob Farrell, general store manager of the Super K mart in Kankakee, told *DSN* that early consumer reaction has been "very positive."

"Almost everyone knows we now have a grocery department," he said. "We did a lot of advertising."

Farrell also said that "the majority of shoppers are making grocery as well as general merchandise purchases during the same trip." He said that doesn't include items, such as candy, party and tobacco products, and certain housewares, that have been moved to the grocery from general merchandise.

In particular, consumers have commented on the ease of checkout, said Farrell. "People come up to me saying how efficient the checkouts are," he said. The store added eight checkouts to the existing 12, but all 20 checkouts, which are equipped with scanning technology, will accept any product, food or non-food.

K mart officials would not reveal any first-year sales projections for the Super K marts.

Larry Parkin, K mart's executive vice president of warehouses and grocery—whose responsibilities include overseeing Super K mart, American Fare, Makro, Builders Square, Office Square and Sports Giant—resisted comparing the Super K mart units to Wal-Mart's SuperCenters, but he did acknowledge that a food/non-food outlet in a size less formidable than hypermarkets would be an important retail concept going forward.

Also, *DSN*'s independent research has shown a greater consumer acceptance, at least so far, of the SuperCenter concept compared to any of the existing hypermarkets.

K mart's Cincinnati-based Makro division helped design the warehouse format and is handling food distribution at Super K mart.

Farrell said that 96-inch-high shelving replaced much lower shelving along a widened aisle as "a transition into the grocery department."

Both Super K marts have expanded store hours and are now open from 8 a.m. to 10 p.m. Monday through Saturday and from 10 a.m. to 7 p.m. on Sunday.

The grocery section offers such recognizable brand names as Stouffers, Green Giant, Minute Maid, Breyers, Oscar Mayer and Hormel in regular and family packs.

Farrell said that many customers were "impressed" by the wide variety of name brands carried, although he admitted that the grocery section "can't have the range that a 40,000-square-foot supermarket would have."

He said that the produce section—including fresh fruits and vegetables—has been particularly popular with shoppers.

According to knowledgeable sources, the Super K mart concept went from the preliminary discussion phase to opening in a swift six months.

While Parkin called the two Super K marts a "test" and refused to discuss future plans, sources said that there are currently "hundreds" of K mart units with adjacent—and vacant—supermarkets.

So, if the two test units are successful, K mart has the ability to roll out the new format relatively quickly and painlessly.

Wal-Mart Hatches a Winner with New SuperCenter Format

(Continued from page 93)

nition level, 97.8 percent or just 1.5 percentage points higher than that for the Wal-Mart SuperCenter.

In addition, a higher percentage of consumers reported having shopped the Wal-Mart SuperCenter than any of the hypermarkets studied: 78.7 percent for the Washington store, 66 percent for the Topeka and 37.6 percent for the Dallas Hypermart USA, 34.3 percent for Carrefour and 67.3 percent for Biggs.

Wal-Mart SuperCenter shoppers are quickly developing a shopping habit—they visit the store more than twice as often than consumers buying at the hypermarkets. At the SuperCenter, the mean number of visits was 19.2 and the median was 10, while the figures for the others were: Dallas Hypermart USA, 4.8 and 2; Topeka Hypermart USA, 8.9 and 5; Carrefour, 6.2 and 2; and Biggs, 11.2 and 4.

Further, even though the SuperCenter is smaller than the hypermarkets and offers a tighter assortment, shoppers at the store spend an average of $51 per visit, only $6 less than at the hypermarkets.

The SuperCenter is also not as dependent on food to build traffic and volume as the hypermarkets: 67 percent of the dollars spent during the Washington shopper's last visit was spent on food, compared to 77 percent on average at the hypermarkets. Only in the Topeka, Kan., Hypermart USA is the percentage of food spending lower.

Additionally, the Wal-Mart SuperCenter does not suffer as much from complaints about how difficult it is to shop. It is a much more manageable store from the shoppers' point of view, with only 5.9 percent noting such problems as large size, too much crowding, unorganized presentation and lack of time for comparison shopping. Overall, 11.4 percent of the respondents cited difficulties in shopping the hypermarkets.

"Time is valuable," said one retail industry expert. "Customers do not want to deal with the time it takes to get into and out of a huge 200,000-square-foot store."

In contrast, the smaller super center or quasi-hypermarket concept—represented by Wal-Mart's SuperCenter, K mart's new Super K mart store, other test concepts like Big Bear Plus, and to some extent, Makro's consumer-oriented membership club— is "the most natural evolution of the discount retail concept," according to the analyst.

This section of *DSN*'s special report on hypermarkets and new forms of discount retailing deals with two of the newest super center concepts (Wal-Mart's and K mart's) as well as two other chains (Meijer and Fred Meyer) that straddle the line between a hypermarket and a super-sized food/general merchandise combination retail store.

SuperCenter Leaves Hypermarkets in Dust

	Wal-Mart SuperCenter	Hypermart USA Topeka	Hypermart USA Dallas	All Hypermarkets
Square Footage	120,000	220,000	220,000	—
Date of Market Entry	3/88	1/88	12/87	—
Total Awareness	96%	94%	94%	92%
Ever Visited	79%	66%	38%	51%
Mean Number of Visits Since Opened	19	9	5	8
Average Ticket Last Visit	$51	$43	$56	$57
Percent Spent on Food	67%	51%	73%	77%

Source: Discount Store News/Leo J. Shapiro & Assoc.

Membership Clubs

Club Format's Popularity, Sales Grow

The membership warehouse industry has come of age.

An exclusive survey conducted for *DSN* found that 57.7 percent of U.S. households had a wholesale club in their area, a 21.7 percent jump from the 47.4 percent of the respondents who had a membership warehouse in their community last year.

More important, the study, conducted for *DSN* by Leo J. Shapiro and Associates, a Chicago-based market research firm, found that the percentage of people overall shopping these stores has jumped. This year, 31.3 percent of those questioned shopped a club, a 23.7 percent increase from the 25.3 percent buying at these stores last year.

Positive Growth Trends

From the membership warehouse industry's point of view, the greater number of people shopping membership warehouses reflects two very positive trends: the overall growth in the number of clubs and the increased acceptance of this form of marketing.

The percentage increase in households with clubs in their area mirrors the accelerated growth in units. Eleven major chains tracked by *DSN* operated 202 units at the start of 1987 and 254 at the end of the year, a 25.7 percent gain. These companies recorded another 25.2 percent jump in stores to 318 units this year. The industry's overall sales, meanwhile, are expected to grow from over $11 billion in 1987 to reach nearly $14 billion this year, then jumping to $18 billion in 1989.

Will Travel to Shop Clubs

Shopper acceptance of wholesale clubs is evident in a number of measurements beyond simply the raw figures showing greater numbers buying at these stores. For example, 47.6 percent of the households with membership warehouses in their market shopped these stores, while 4.9 percent of the households that weren't in a community with a wholesale club made purchases at one of these stores somewhere else.

While respondents spent a large amount at wholesale clubs, the average figure per visit declined slightly as there are a greater number of membership warehouses for people to shop in. The *DSN* study found that the mean amount spent per visit last year was $90.50, a $28.30 decline from $118.80 the previous year. The median amount per visit also fell, but much less so, to $70 from $80.

The great appeal of buying in a membership warehouse shows up in the spending pattern. The mean amount spent in one shopping trip by people who had a wholesale club in their area was $90.10 and the median amount was $60. But respondents who didn't have a nearby store and had to shop a club somewhere spend a much larger amount: the mean was $105.20 and the median amount was $85.

Another indication of the industry's growing acceptance: the swelling number of members—wholesale and group—reported by the clubs themselves. The increases for business members range from 18.4 percent at the Price Club, which has the greatest number of wholesale members, 900,000; 25 percent at The Wholesale Club, which has 90,000 business members; 30 percent at Sam's Wholesale Club and its 1.3 million wholesale members; to 33.3 percent at Price Savers, which has 200,000 business members.

The gains in group members, who don't pay any membership fee but buy at a 5 percent surcharge over the listed wholesale price, are in the 20 percent to 30 percent range. Group members number anywhere from 1 million at The Wholesale Club to 2.8 million at PACE.

While wholesale clubs aren't ignoring group members, they recognize that their future depends on fostering the growth of business members, who both pay an annual fee, $25 or $30, and make substantially larger purchases.

Depending on the membership warehouse, the difference in annual sales to business vs. group members can range from $1,400 at Sam's to $3,150 at The Wholesale Club, according to Stephen F. Mandel Jr. of Goldman, Sachs & Co. He reported in an August study, "The Warehouse Club Industry," that business members annually spend an average of $1,890 at Price Savers, $2,400 at Sam's and BJ's Wholesale Club, $3,280 at The Wholesale Club and a high of $3,450 at the Price Club.

Group member average annual purchases amount to $90 at Price Savers, $120 at PACE, $130 at The Wholesale Club, $300 at BJ's and a $1,000 high at Sam's.

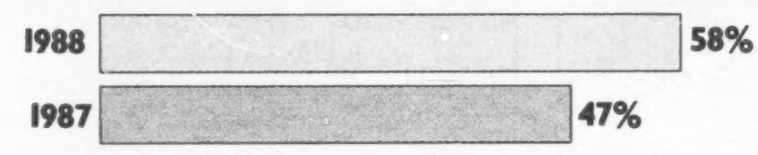
The Price Club and Costco don't have a "free" group

(Continued on page 105)

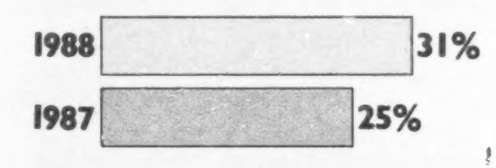
Nearly one-third of consumers in DSN's survey said they have shopped at a membership warehouse club. This increase reflects two very positive trends for the industry: the overall growth in the number of clubs and the increased acceptance of this form of marketing.

Warehouse Clubs Awareness Rises

Percent of respondents who are aware of a warehouse club in their area:



Percent of respondents who shopped a warehouse club in the past year:



Source: Discount Store News/Leo J. Shapiro & Assoc.

Price Club

SAN DIEGO, Calif. — Price Club continues to refine its highly successful wholesale club formula by offering members such new services as travel, auto leasing and buying, optical and oil change/lube service while developing its sites into shopping centers and launching a new division to explore other business opportunities.

The company's single-minded merchandising focus on wholesale members has enabled Price Club to retain its status as the No. 1 membership warehouse, including running two dozen stores with $100 million or more in sales, turning inventory about 20 times a year and obtaining two-thirds of its volume from business members who average about $3,500 in annual purchases.

While targeting its mix of 2,800 sku's—the tightest in the industry—to satisfy the basic merchandising needs of wholesale members, Price Club has added the new services to give these customers additional reasons to regularly shop its stores; it augmented the concept of serving business members to include goods and services that also fill their personal needs.

Price Club Industries was set up to oversee the company's move into non-merchandising ventures such as providing the new services, operating a meat processing plant and a photo development facility. The new ventures are seen as reducing the cost of core merchandise and services like hamburger patties and photo development to offer members better values.

Unlike most other wholesale clubs, Price Club is also capitalizing on the chain's real estate potential. It owns most of its sites, and the properties—often purchased at low cost because of locations in industrial rather than commercial areas—often contain space for additional stores. A Price Club is a destination location and the store's high traffic now makes adjacent sites appealing to other retailers. Its recent $48.1 million cash acquisition of A.M. Lewis Inc., a food wholesaler that owns five food distribution centers, was a real estate deal, specifically to obtain the Northridge, Calif., site for a Price Club store.

	1988	1987
Sales (In Millions)	$4,053.4	$3,236.3
Earnings (In Millions)	94.8	73.3
Stores (Calendar Year)	41	37
Wholesale Members	900,000*	740,000
Group Members**	1,500,000*	1,200,000

1988 sales and earnings are for fiscal year ended August 1988.
***Preferred group members who pay a fee; no free group members.*
**Estimate*
Source: company reports

Sam's

BENTONVILLE, Ark. — Sam's Wholesale Club—already the leading membership warehouse chain in number of units—is likely to reap the rewards of its fast-paced expansion next year and become the top wholesale club industry in volume with over $5 billion in sales.

The chain's 50 percent-plus growth in stores and sales over a three-year period reflects the strengthening of its business member-oriented merchandising, spotting of new clubs in smaller cities and markets that have little, if any, other membership warehouse competition and the successful transformation of the Super Savers chain, acquired 18 months ago, into Sam's units.

Sam's has trimmed its mix to between 3,000 and 3,500 sku's to eliminate slow-selling items while augmenting the assortment of goods like furniture used in businesses and home offices. The result is one of the highest number of wholesale members per club, with these shoppers accounting for about 60 percent of the chain's sales.

The chain will open about 20 stores next year, with many going into smaller metro markets in the upper Midwest, Sam's new growth area, and as fill-ins in the South and Southeast. This expansion mirrors that of Sam's parent, discounter Wal-Mart, in that the wholesale club stakes out untapped markets, often small cities like Lawton, Okla., and Texarkana, Texas, before competitors and then locks up the business to discourage other membership warehouses.

In another emulation of its parent, Sam's is testing electronic scanning in a handful of stores, using the technology to receive merchandise as well as to capture UPC information at the checkout.

Sam's has also rolled out a preferred card program for group members in which they pay a $30 annual fee and buy merchandise at the wholesale price, rather than with a 5 percent surcharge. The chain was among the last wholesale clubs to offer group members this option.

	1988	1987
Sales (In Millions)	$3,930.0*	$2,711.0
Earnings (In Millions)	NA	NA
Stores (Calendar Year)	102	84
Wholesale Members	1,300,000*	1,000,000*
Group Members	1,700,000*	1,400,000*

1988 sales and earnings are for fiscal year ending January 1989.
**Estimate*
Source: company reports

Membership Clubs

Costco

KIRKLAND, Wash. — Costco Wholesale has settled into its niche as a innovative membership warehouse chain, ready to break new ground by adding such services as a company credit card and serviced fresh meat, produce and scratch bakery sections.

While doing so, Costco has fine-tuned its mix to strengthen its appeal to wholesale members who accounted for about 65 percent of its almost $2 billion in sales last year. "Preferred" group members, who pay a membership fee similar to business members, accounted for the remaining volume.

Costco's merchandising moves haven't slowed its expansion. The chain had a net growth of seven stores this year—opening 10 units and closing three Midwestern clubs. At least six more units are planned for 1989.

Adding serviced departments and a credit card are part of Costco's effort to differentiate itself from competitors like Price Club in the Los Angeles and San Francisco markets and Sam's in the Tampa and Orlando, Fla., areas. Costco is now rolling out these departments—which sell goods in multiple-item packages or large cuts—in both new and existing warehouses, while also continuing its foray into optical and pharmacy sections.

Costco's wholesale member focus has resulted in the company's mature stores generating the industry's second-highest average sales of about $60 million, with some clubs approaching the $100 million level achieved by Price Club, the industry leader.

	1988	1987
Sales (In Millions)	$1,988.7	$1,370.0
Net Earnings (In Millions)	$14.5	$5.1
Stores (Calendar Year)	50	43
Wholesale Members	583,000	473,000
Group Members*	1,041,000	1,095,000

1988 sales and earnings are for fiscal year ended August 1988.
**Preferred group members who pay a fee; no free group members.*
Source: company reports

PACE

DENVER — Celebrating its fifth anniversary, PACE is finishing off a year that has brought in new management, a sharper focus on wholesale members and the bottom line, and a commitment to increase customer service and fine-tune the merchandise mix.

The chain is now headed by chairman Wayne Patterson and president Charles Steinbrueck, co-chief executive officers, who have emphasized cost control and wholesale member orientation. This is a marked change from PACE's previous primary focus—under founder and former chairman and president Henry Haimsohn—of opening new stores as the main route to profits.

The seven clubs opened this year should help boost sales to almost $1.3 billion and increase net income to $8.3 million. PACE projects adding about eight units in 1989, strengthening its presence in such current markets as Atlanta, Detroit and Baltimore/Washington, as well as debuting in Raleigh, N.C.

The warehouse club is also fine-tuning its merchandise mix to a better/best philosophy as part of its PACE Pride program, which is designed to heighten the chain's customer service level. PACE in some areas had drifted away from carrying the top brands and the chain now wishes to re-emphasize name brands that are more competitive with specialty stores rather than discounters.

Overall, the changes aren't drastic, and PACE will still sell about 135 sku's of its private label products.

	1988	1987
Sales (In Millions)	$1,275.0*	$939.6
Earnings (In Millions)	$8.3*	$7.7
Store Count (Calendar Year)	39	32
Wholesale Members	248,000	205,000
Group Members	2,800,000	NA

1988 sales and earnings are for fiscal year ending January 1989.
**Estimate NA—not available Source: company reports*

BJ's Wholesale Club

NATICK, Mass. — BJ's Wholesale Club will face a new future following the pending spin-off of the membership warehouse and its sister membership home center chain, HomeClub, into a new publicly-held company.

The move, engineered by its former parent, Zayre Corp., could result in BJ's finally receiving the financing and management attention it needs in order to rapidly expand in the Northeast, its home base, and turn a marginally profitable operation into a highly prosperous one. Currently, BJ's virtually has the Northeast to itself with 16 of its 22 stores in the New England and Middle Atlantic States. Its only major wholesale club competition is Price Club, with about a half dozen units in the region.

Under its Zayre ownership, BJ's was a minor player in the troubled retailer's conglomerate of chains. The Zayre discount stores were eventually sold as the parent reorganized itself into an apparel specialty store business.

In an effort to boost the bottom line, the chain, which also has clubs in Florida and Chicago, has unveiled a new look in its latest units opened in Westboro and Chicopee, Mass., that executives expect will be more productive than its older format. BJ's has also initiated an Inner Circle $30-a-year membership level, in which group members obtain a membership that enables them to buy goods at the same wholesale price as business members. BJ's was one of the last wholesale clubs to offer this membership option.

	1988	1987
Sales (In Millions)	$800.0*	$580.0*
Earnings (In Millions)	NA	NA
Stores (Calendar Year)	22	19
Wholesale Members	150,000*	125,000*
Group Members	1,500,000*	1,250,000*

1988 sales are for fiscal year ending January 1989.
**Estimate NA—not available Source: company reports*

Price Savers

SALT LAKE CITY — Price Savers doesn't expect to change its status as a retail-oriented warehouse club as a result of the pending management-led buyout of the chain from its former parent, Kroger.

The four Price Savers opened this year include the chain's debut in the Phoenix market with two units and a beefing-up of the greater Cincinnati area, entered last year, with two more clubs. The maturing of the six stores opened last year, along with the new units, should about double Price Savers' sales to a company-projected $600 million.

Prior to the proposed restructuring, due to be completed by the end of the year, Price Savers had planned to open eight units in 1989. Currently, three new sites—two in Sacramento and one in San Diego—have been confirmed, but additional openings may now be in question.

The chain has been able to expand into highly competitive markets like Southern California due to its retail orientation, which is marked by the merchandising of a broader assortment than most other warehouse clubs.

This focus on retailer customers has led Price Savers to be one of the first membership clubs to electronically scan goods at the checkout—rather than use a clerk who calls out the identification numbers to a cashier, as in most clubs.

Wholesale members, however, account for over half of Price Savers' sales, reflecting the chain's vigorous pursuit of these shoppers.

	1988	1987
Sales (In Millions)	$600.0*	$380.0
Earnings (In Millions)	NA	NA
Store Count (Calendar Year)	16	12
Wholesale Members	200,000*	150,000*
Group Members	2,600,000*	2,000,000*

1988 sales are for fiscal year ending December 1988.
**Estimate NA—not available Source: company reports*

The Wholesale Club

INDIANAPOLIS — The Wholesale Club seems to have overcome the Midwest jinx and become a profitable regional operation, with its 18 membership warehouses expected to generate upward of $3 million in earnings in the current fiscal year.

Warehouse Club, the other major upper Midwest regional membership warehouse, has shut two stores to trim its operation to just 12 units while it strives to become profitable, while Costco, the industry's third-largest chain, has terminated its three-club probe into the region.

The Wholesale Club's turnaround reflects a number of factors: massing a number of stores in a city, the maturing of these units, a sharper focus on business members and the lack of competitors in its three key markets—Minneapolis (five clubs), Cleveland (four) and Indianapolis (three). The latter situation could change as Sam's, No. 2 in the industry, expands in the upper Midwest, with the two due to battle in Grand Rapids, Mich., next year.

Besides Grand Rapids, The Wholesale Club plans to open units in 1989 in Duluth, Minn.; Appleton, Wis.; and Youngstown, Ohio, cities that so far aren't home to any membership warehouse.

The drive to better serve business members has seen The Wholesale Club adjust its assortment to carry more office furniture and a deeper mix in such products as candy and paper goods used by food vendors. Its telemarketing program to sign new businesses and renew memberships also asks what merchandise they need that the chain doesn't carry.

	1988	1987
Sales (In Millions)	$400.0*	$271.7
Earnings (In Millions)	3.0*	(0.6)
Stores (Calendar year)	18	15
Wholesale Members	90,000*	72,000
Group Members	1,000,000*	818,000

1988 sales and earnings are for fiscal year ending January 1989
**Estimate Source: company reports*

Makro

CINCINNATI — "There's Nothing Else Like Makro!" is the advertising tagline used by this six-unit wholesale club operation that is jointly owned by Kmart and its founder, SHV Holdings of the Netherlands. There couldn't be a more apt description of the chain, which is gearing up for a major expansion including the opening of a minimum of 14 new units over the next two years.

Company executives say the chain's 150,000-square-foot to 200,000-square-foot units represent a hybrid combining aspects of a European hypermarché and an American warehouse club, with a dash of an upscale department store flavor in soft lines and jewelry. Among other distinguishing characteristics of Makro units are sku counts of about 25,000 items, compared to the 3,000 to 4,000 carried by a typical club, weekly ad circulars and no membership fees.

The chain caters to customers representing four different buying patterns: restaurant owners who buy merchandise for resale; business people who buy stationery and office products for their own use; food shoppers who do their weekly grocery shopping; and general consumers.

Following Kmart's purchase of a 51 percent stake in March, the chain: closed Makro's poorest performing club; opened three new clubs; added new executives who are experienced in running large, multi-unit chain operations; tested a seafood department in Cincinnati; and published a slick, four-color holiday merchandise catalog.

	1988	1987
Sales (In Millions)	$375.0*	$300.0
Earnings (In Millions)	NA	NA
Stores (Calendar Year)	6	4
Wholesale Members	500,000	400,000
Group Members**	0	0

1988 sales are for fiscal year ending January 1989.
**Estimate **Makro does not offer group memberships*
NA—not available Source: company reports

Sales and Units Continue Climb As Clubs Take Off

(Continued from page 101)

member level. Instead, people that fall into the group member category have to pay a fee to be a "preferred" group member and can buy at the posted wholesale price.

Most of the other membership warehouses also have a "preferred" group member category and annual purchases by these members are much higher than those of free group members, but still less than business members. The willingness of individuals who don't qualify for a business membership to pay a fee to belong to wholesale clubs testifies to the industry's strong appeal.

Mandel reported that "preferred" group members annually spend an average of $620 at The Wholesale Club, $625 at Costco, $1,180 at the Price Club, $1,440 at PACE and $2,000 at Sam's.

Most Sales to Businesses

Wholesale members also account for a larger portion of a chain's sales. The figures range from 51 percent at The Wholesale Club, 56 percent at PACE and Price Savers, 58 percent at Sam's, 65 percent at Costco to a 67 percent high at the Price Club, according to Thomas R. Kully of William Blair & Co. in the August study, "The Warehouse Membership Club Industry."

The Price Club and Sam's are the industry's leading chains, whether measured in total sales, volume per club or annual purchases by members. This is due, of course, to the greater number of people shopping at these chains, in the Price Club's case because of its reputation and longevity, and in Sam's because of its greater number of stores.

The *DSN* study found that of all the households who have shopped at a membership warehouse, 37.6 percent did so most recently at Sam's, up 75.7 percent from the 21.4 percent that had done so last year. Price Club was next, with 12.8 percent shopping the chain, an 8.5 percent increase from the 11.8 percent of the previous year. The percentages fell off quickly, from Costco's 9.5 percent to The Wholesale Club's 2.8 percent.

The availability and reputation of a wholesale club, however, has a marked impact on shopping patterns. Of those respondents who had a membership warehouse in their area, 28.1 percent shopped at Sam's and 11.6 percent did so at the Price Club. The range for the other chains ran from 9.1 percent at PACE to 5.1 percent for BJ's.

Sam's greater number of stores provided another benefit for the chain. A greater number of households without a club in their immediate area, 12.2 percent, ended up shopping at Sam's than at other chains. The percentages for other wholesale clubs went from 9.9 percent at PACE to just 1.8 percent at BJ's.

Price Savers opened four new units in 1988, including its invasion of the Phoenix, Ariz., market with two units.

Its approximately 150,000 business members spend an average of $2,400 each year at BJ's Wholesale Club. (DSN photos)

"OH, SAY CAN YOU SEE"...

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New Yorkers can now buy Magnivision reading glasses for $14.

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To those public service advocates, senior citizen groups and visionary retailers, as well as leading ophthalmologists who testified on our – and the public's – behalf, we are most grateful.

The adjacent ad ran, November 30th, in the following publications:

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Home Shopping

Electronic Retailing Filling Niche Needs

The infant field of electronic retailing is in transition.

Passive teleshopping, the most mature segment of the multifaceted but young ER business, is undergoing a shakeout, while other formats—interactive cable TV retailing, computer marketing and kiosk merchandising—are in start-up phases.

Lurking just offscreen are proposals by the nation's various telephone companies to augment their phone service, including offering shopping. In the projected services, consumers would punch in numbers on their touch-tone phones to order merchandise from retailers' catalogs.

The search for viable methods to use the latest technology to sell merchandise points up the uncertainty about ER's long-term impact on retailing. This quandary is heightened by the restrained consumer interest in the most ubiquitous current ER format—passive teleshopping—in which viewers order the merchandise shown on a TV program.

No matter what forms the business eventually takes, ER is seen as an adjunct to—and not a replacement for—traditional store retailing. It is viewed as niche marketing, filling the shopping needs of segments of the population: upscale, technology-oriented consumers and those with limited time for shopping.

Teleshopping's limited appeal to consumers illustrates the ER dilemma.

Despite the round-the-clock availability of a half dozen video shopping shows, an exclusive *DSN* consumer study found mostly small increases in the number of viewers, the hours watched and the orders placed compared to a year ago.

Teleshopping's niche marketing appeal, however, is indicated by the big gains in viewers and sales reports from these firms which are true retailers in that they buy and stock the goods they sell.

The *DSN* study, conducted by Leo J. Shapiro and Associates, a Chicago-based national research firm, showed:

- Teleshopping viewing went to 48.4 percent of those questioned in April and August '88, an 8.8 percentage point increase from the 39.6 percent watching these programs in April and July '87;
- The amount of time watching increased, with the mean going from 2.7 to 3.6 hours;
- Consumers ordering merchandise increased 3.8 percentage points to 18.4 percent from 14.6 percent. But the mean amount spent fell by $2.90 to $60.20 from $63.10.

A brighter picture was evident from the major video retailers' financial reports.

The mature companies that have passed the start-up stage report sales gains ranging from 25.4 percent for the 3-year-old Home Shopping Network to 175.9 percent for the 2-year-old Cable Value Network. Year-old QVC reports serving over 1 million shoppers in its start-up period and is currently adding more than 10,000 new customers a week, while CVN doubled its customer base in the fiscal year ended in August (to an estimated 6 million).

HSN, CVN and QVC are the three principal teleretailers, dominating what has become an oligarchy. There are now seven major players, compared to the over two dozen firms operating a year ago. These teleretailers air their programs on cable TV, although HSN also broadcasts a show on commercial TV stations in about a dozen major metro markets.

Cable TV operators are now less interested in teleshopping as a result of the contraction in the number of companies and the lackadaisical consumer attitude toward this method of merchandising.

The Infomarketing Division of Jack Myers Marketing Communications, a Parsippany, N.J., research firm, reported in a study that the number of cable TV operators who viewed teleshopping as "unimportant" to their network's revenue growth jumped to 63 percent of those questioned this year from only 21 percent last year.

The small growth in viewership of teleselling shows and ordering goods has resulted in flat growth in cable operators' income from these programs. Fees from teleshopping shows account for only about 5 percent of a cable system's revenues and operators need to air only one or two such programs to obtain the maximum income, company president Jack Myers said.

The passive teleshopping field shakeout has resulted in marketers and cable system operators looking to interactive video selling as a new growth business. Cable operators also view this service as a way to get more consumers to subscribe to cable TV.

So far, only two ventures are being aired, JCPenney's Telaction as a start-up service and GTE's Main Street as a test. Neither are retailers; in both cases merchants and service providers offer their own goods and services through the two interactive systems.

Interactive TV's potential as a cable TV draw and a merchandising vehicle is open to question, according to the *DSN*/Leo J. Shapiro survey. Only 24.6 percent of all those questioned had heard of the concept, with cable TV subscribers being more familiar than non-cable viewers: 33.1 percent to 16.5 percent.

Consumer interest, however, seems to be very meager, given the very limited availability of current interactive services and no major national effort to promote the concept. Of all those surveyed, only 2.2 percent were very interested, 17.8 percent somewhat interested, 63.3 percent uninterested and 16.7 percent didn't have any opinion. Cable subscribers were only slightly more likely to be more interested than non-cable viewers.

Interactive teleselling also didn't shape up as a major reason for consumers to become cable TV subscribers. Only 2.9 percent of non-subscribers said they would definitely subscribe if interactive shopping was available.

Interactive Growth Seen

As interactive teleshopping becomes better known and available in more markets, consumers will become more interested in the service and it could become a viable niche marketing vehicle, according to a Management Horizons' Retail Focus Series Interactive Home Shopping study.

The consulting and marketing firm estimated that all interactive shopping formats—cable TV and computer—could become a $20.5 billion general merchandise and a $17.7 supermarket business by the next century, assuming a 50 percent national household penetration with an average sale of $50.

The study noted that interactive cable teleselling's appeal is as a marketer of unique and hard-to-find merchandise, gifts, and for goods like groceries that consumers want to buy without a shopping hassle. Interactive cable teleshopping will also play a role as a provider of merchandise information.

As for interactive computer merchandising, Management Horizons sees this technology's prime function as the means for retailers to provide information within specialized markets, with merchants employing the service to sell goods as a secondary use.

Kiosk marketing is the newest, most diverse ER format. Most kiosk manufacturers just sell the units to other firms, but a few manufacturers also handle the unit's merchandising, either selecting all the goods or "renting" space to other companies.

Also, a few retailers use selling machines either as ancillary salesclerks in stores or as freestanding units in places like office buildings, while other retailers use the units to provide information on the goods and services they offer, where departments are located or for general information.

Electronic Shopping Services

Passive Cable Shopping

Company	Sales (In Millions) 1988	Sales (In Millions) 1987	Cable Systems Carrying	Homes Passed (In Millions)
Home Shopping Network St. Petersburg, Fla.	$700.0 *	$582.1*	1,683	21.6
Cable Value Network Minneapolis, Minn.	352.0*	127.6*	1,850	20.0
QVC West Chester, Pa.	112.3	2.2	931	12.6
America's Shopping Channel San Diego, Calif.	19.0	NA	5	1.0
TelShop Santa Monica, Calif.	10.1	7.6	950	11.0
The Fashion Channel Carson, Calif.	5.5	—	600	10.1
Shop Television Network Los Angeles, Calif.	NA	NA	119	4.4

Interactive Cable Shopping

Telaction Schaumburg, Ill.	Start-up operation on two cable systems with 40,000 homes, serving 10 suburban Chicago markets
Main Street Stamford, Conn.	Start-up test on one cable system in Newton, Mass.

Interactive Computer Shopping

Company	Sales (In Millions) 1988	Sales (In Millions) 1987	Number of Suppliers	Number of Subscribers
The Electronic Mall CompuServe Columbus, Ohio	NA	NA	100	500,000
PRODIGY White Plains, N.Y.	June 1988 start-up. Now in seven markets		110	NA
GEnie Mall GEnie Rockville, Md.	August 1988 shopping start-up for GEnie subscribers (who can also access Comp-U-Store Online).		20	115,000

Telephone and Computer Shopping

Company	Revenues** (In Millions) 1988	Revenues** (In Millions) 1987	Number of Members: Phone	Number of Members: Computer	Number of Suppliers
Comp-U-Card Stamford, Conn.	$198.5	$141.8	2.9 mil.	70,000 Comp-U-Store Online	1,100

*DSN estimate of teleshopping sales
Sales and revenues as of last completed fiscal year
**Membership and service fees only
NA—not available
Source: DSN research; company reports; CableVision

C5150-3

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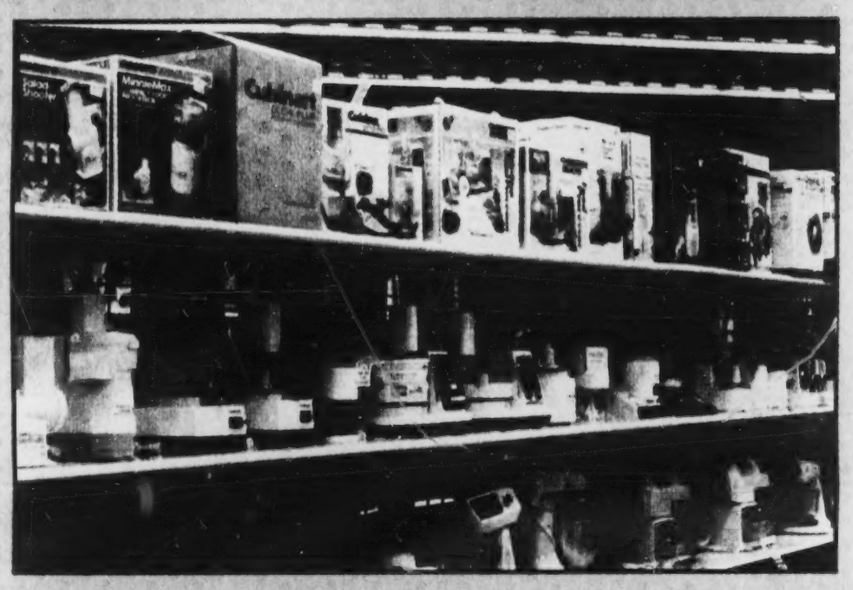

WINTER CE & HOUSEWARES SHOWS: Expanded coverage includes previews, a profile of Silo (top), the premiere of Home Office Merchandising, exclusive consumer research on small electrics (above at Save Rite), new products, plus much more. Don't miss it! (DSN photos)

Sam's Gains Ohio Entry; Acquires 3 Price Savers

By Richard C. Halverson

CINCINNATI — Kroger, the $17.7 billion food and convenience store retailer based here, has agreed to sell to Wal-Mart three Price Savers warehouses in the Cincinnati market, giving Wal-Mart's Sam's Wholesale Club a quick entry into a new state, Ohio.

Utah-Based Club To Focus on West

The nearly $4 billion wholesale club division of the Bentonville, Ark.-based discount chain plans to add new warehouse clubs in Dayton and Toledo in 1989.

The sale also means that Price Savers, based in Salt Lake City, is scrapping plans to expand into the East, and instead will concentrate its immediate growth in the western United States.

"Geographically, with just three stores, Ohio was more difficult for us," Price Savers president Thomas R. Grimm said.

Price Savers will open three more California units this fall. One will be in San Diego, home territory of the Price Club, and the other two in Sacramento, a new Northern California market, Grimm

(Continued on page 113)

One of three Cincinnati Price Savers bought by Sam's Wholesale Club: Deal gives Sam's quick foothold in Ohio and allows Price Savers to focus attention on its Western expansion.

How Best Was Bought:

The Inside Story of a Major Takeover

By Arthur Markowitz
Nationwide DSN Report

The leveraged buyout of Best Products has been a retailing version of a Greek drama—a succession of acts that inexorably lead to the concluding scene.

News Analysis

DSN has been able to reconstruct the play of events that resulted in Adler & Shaykin's $1.1 billion LBO of Best—due to be legally completed this month—from the cataloger's filing with the Securities and Exchange Commission and other sources that didn't want to be identified.

Best's fate was sealed on Aug. 10, 1988, when the Prospect Group, a New York investment firm, notified the SEC in a 13D filing that it owned almost 10 percent of the cataloger's stock and that it might be interested in taking over the company.

When Prospect disclosed its filing, Robert E.R. Huntley, then Best's chairman and chief executive officer, wryly commented that the cataloger was now in play. The Prospect Group's action had moved the takeover interest from behind the scenes to stage center.

The Prospect Group, which began accumulating Best stock in June 1988, wasn't the first

(Continued on page 126)

Wall to Wall Sound & Video Pushes to Corner Key Markets

By Peter Hisey

CINNAMINSON, N.J. — Faced with what one of its executives termed "the post-VCR-explosion era" in the consumer electronics market, Wall to Wall Sound & Video, the audio/video specialty chain based here, has expanded its superstore concept, instituted an advanced training program for store personnel, and added more upscale sources to its product mix.

The chain has also undertaken an aggressive expansion campaign aimed at solidifying its presence in several key markets.

According to Jerome Shulman, chairman and chief executive officer, Wall to Wall has opened 19 stores—eight of which are 15,000-square-foot to 18,000-square-foot superstores—since last March. Several more are planned before fiscal 1989 ends in February.

Three stores were added to the northern New York market, in the Schenectady/Syracuse area. Three have opened and two more are expected to strengthen Wall to Wall's presence in the Washington, D.C., market. Additional stores were opened in Philadelphia (four superstores) and southern New Jersey (one superstore and one mall outlet).

"Our strategy is to fill in the holes in our traditional markets and strengthen our market presence," Shulman said, noting that the company will be very careful about approaching new markets.

(Continued on page 112)

For Stein Mart, Carolina is Finer in 1989

JACKSONVILLE, Fla. — Stein Mart is expanding into the Carolinas in 1989, *Discount Store News* has learned.

Specializing in upscale apparel and soft home at considerable discounts, Stein Mart will open in Greenville, S.C., this spring and Charlotte, N.C., in the fall.

Stein Mart intends to open at least four stores this fall, said Mason Allen, general merchandise manager, but the markets are undetermined for all but Charlotte. A Stein Mart source previously said the chain will focus expansion efforts in the Southeast.

In 1988, Stein Mart expanded further into Texas, opening a second store in San Antonio and another in Austin. At year-end, Stein Mart operated 27 stores, plus a clearance store here in Jacksonville.

As a private, family-owned company, Stein Mart refuses to disclose sales and profits.

But, according to financial sources, Stein Mart is a profitable and growing chain. Stein Mart earned about $6 million in pretax income on sales of close to $107 million for the 11

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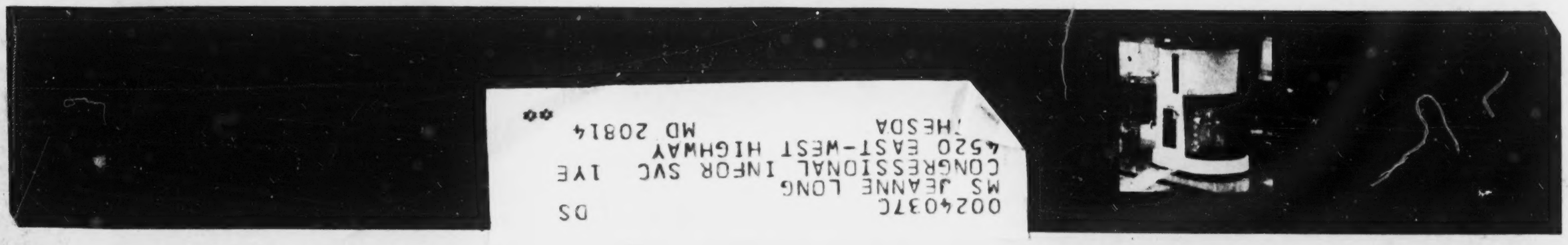

MARKETWATCH

Sol Price to Step Down from Club Board

SAN DIEGO — Although he will remain "very much involved with the company," Price Club founder Sol Price will not seek re-election in January as a director and chairman of the board. As reported in the membership warehouser's annual report, Price decided to "step back" and let his son Robert, president and ceo, take on the chairman title. The company also said its first and second quarter profits will probably be adversely affected by the acquisition of grocery wholesaler A.M. Lewis and the start-up costs of a manufacturing facility in National City, Calif.

Pic 'N' Save Enters N.Y., Buys Job Lot

CARSON, Calif. — Closeout specialist Pic 'N' Save, based here, has completed its acquisition of 15-store Job Lot Trading in New York from Zilber Ltd. for an undisclosed amount. The stores, with sales volume over $35 million, will continue to operate under the Job Lot name, while giving 141-store Pic 'N' Save its first entry into the major metropolitan market.

Mays Clears Legal Hurdle in Sale of Unit

BROOKLYN, N.Y. — The J.W. Mays board, which has determined to cease retail operations in the company's three existing stores, said it entered into a stipulation and order with the preliminary executors of the estate of Sol Goldman, permitting the sale of its 14th Street Manhattan property to be consummated. The estate of Sol Goldman holds a 23 percent interest in Mays. The sale of the 14th Street unit is scheduled for later this month.

Miller Becomes 14th K mart Director

TROY, Mich. — Richard S. Miller has been elected to K mart Corp.'s board of directors, an addition that brings the number of board members to 14. Miller, 48, a 28-year veteran of K mart, has been executive vice president, K mart stores, since April 1988. He is responsible for all merchandising activity and store operations. Miller has two subsidiaries, K mart Apparel Corp. and K mart Canada, reporting to him as well.

Trak Post Sales Gains; Haft Takes Reins

LANDOVER, Md. — Helped by the opening of seven stores in the third quarter and 24 in nine months, Trak Auto reported 14 percent sales gains over the year-earlier periods. For the third quarter ended Oct. 31, sales rose to $63.7 million and for the nine months, sales rose to $179.8 million. The chain also said that Robert Haft, president of the Dart Group, has become interim president and coo of Trak following the retirement of Ben S. Kovalsky.

Bradlees Takeover Attempt Prompts Suit

CAMDEN, N.J. — Several union locals representing Bradlees workers have sued the Haft family for unspecified damages, charging that its raid on the Stop & Shop Cos. has threatened 3,000 union jobs. After Herbert Haft and his son, Robert, attempted to take over Bradlees' parent in February, Stop & Shop management took the company private in a $1.23 billion leveraged buyout. To help pay down LBO debt, Stop & Shop is attempting to sell the 58-store Southern division of Bradlees. Hechinger, a Washington, D.C.-based home center chain, agreed to buy 47 (now cut to 33) of those stores, and the employees there will lose their union jobs. In a prepared statement, Robert Haft dismissed the class action suit, filed in a New Jersey state court, as an apparent publicity stunt. "We are not the owner of that company, and, obviously, we have nothing to do with their decision" to sell the Bradlees stores, Haft said.

Shopko to Open First California Unit

GREEN BAY, Wis. — ShopKo Stores will make its first entry into California next fall when the discounter opens a 94,000-square-foot site in Redding. ShopKo will find K mart already operating in Northern California and Target is expected to also join the area competition next year. Currently, ShopKo operates 87 stores in 11 states and plans to open at least 12 sites during 1989.

American Fare Leases to Music Store

TROY, Mich. — Handleman Co. has signed an agreement with American Fare for the leasing of space to be used for the operation of a retail prerecorded music and video store, which is expected to open Jan. 29 within the American Fare complex in Atlanta. It will be operated by Handleman's newly established subsidiary, Entertainment Zone Inc. The subsidiary is expected to operate leased departments within customers' stores as well as additional retail stores in the same format as the American Fare/Entertainment Zone arrangement.

Ward Slashes Everyday Prices; Still Disclaims 'Discounter' Label

CHICAGO — After initiating an everyday low price strategy for two departments more than a year ago, Montgomery Ward has extended the pricing policy companywide. But like Sears, which recently announced an everyday low price program, the 324-unit retailer does not want to be called a discount store.

"Montgomery Ward does not consider itself a discount retailer," said spokesman Chuck Thorne. "We consider ourselves a chain of value-driven specialty stores. We put a strong emphasis on customer service and a wide assortment of brand name merchandise at consistently low prices every day."

Montgomery Ward first introduced an everyday low price strategy in its refocused Auto Express automotives department in 1987. Last summer, that pricing strategy was extended to Electric Avenue, its consumer electronics and appliance department.

The retail chain rolled out the everyday low price strategy chainwide only recently, when the policy had "evolved" far enough to do so, said Thorne.

Ward made no formal announcement about its new pricing strategy but broke the news in holiday circulars which announced that Montgomery Ward reduced prices on 10,000 items, in "permanent price cuts."

These ads pledged to shoppers that brand names are "priced *so low—plus*, we guarantee we'll match any other store's ad sale prices."

In addition, the ads announced new in-store sales identification markers: triangles, which are placed on merchandise displays. Sales items are now identified in one of three ways:

- A yellow "Super Buy" triangle sale sign guarantees that Ward's will never price the items for less;
- A red "Sale" sign informs customers that merchandise is on sale for a limited time but if within 30 days of the ad the items are priced lower, the difference will be refunded;
- A green "Extra Value" triangle tells customers that if they find the item advertised anywhere within 30 days for less than Ward's price, the retailer will match that price.

Service Switches Stock to Big Board

NASHVILLE, Tenn. — In a move to increase investor awareness—and possible trading—of its stock, catalog-er Service Merchandise has moved the listing of its securities to the New York Stock Exchange from the over-the-counter market.

The step at the end of 1988 came as Service decided to close its remaining The Lingerie Store to concentrate operations on its core catalog showroom business. It could open as many as 18 new showrooms this year.

The cataloger has already announced plans for 11 new showrooms in 1989 and two replacement units. Besides its 317 showrooms, Service operates three Zimm's jewelry specialty stores and 11 Computer Shoppes.

Service is the only cataloger listed on the Big Board as two others, Best Products and Jewelcor, became privately held firms earlier in the year. The other public catalogers are either on the American Stock Exchange (L. Luria and Son) or the OTC market (W. Bell and Brendle's).

DSN Co-Sponsors Seminar at BTS

NEW YORK — In conjunction with the National Back-to-School Merchandise Show, which will be held Feb. 11 to 13 at New York's Jacob Javits Convention Center, *Discount Store News* will co-sponsor a free seminar on mass marketing trends in stationery and office supplies.

Titled "Market Update '89," the seminar will feature a roundtable discussion with five retailers: Larry Fine, vp, dmm, Jamesway Corp.; Steve Appel, founder/partner, Office World; John Kinzi, director of general merchandising, Drug Emporium; Dan McAllister, stationery buyer, Kerr Drug Stores; and Lance Clark, merchandise manager, Snyder Drug.

The seminar will be held on Sunday, Feb. 12 at 8:30 a.m. in Room 1A03 on the same level as the BTS exhibit hall. There is no charge for BTS registered attendees.

Fred Filer, vice president, publisher, *DSN*, will moderate with Jay Forbes, vice president, publisher of *Drug Store News*, also published by Lebhar-Friedman Inc.

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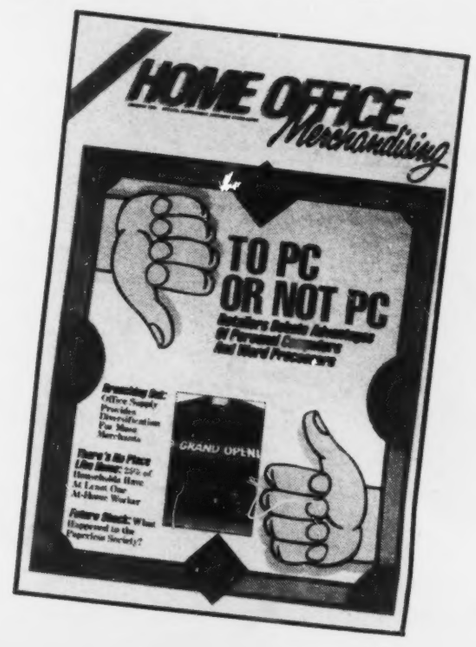

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Office Supply Industry to Double Outlets in 1989

More Operators May Go Public for Financing

By Laura Liebeck
Nationwide DSN Report

In just two years, the deep discount office supply industry has grown to 12 players, with two more companies on the way, and 141 stores across the country.

By year-end, the number of stores in the office supply industry is projected to grow 98 percent to over 280 stores, if all the expansion plans come to fruition and no chain crumbles under the weight of the increased competition.

So far, there are no indications of any chain in imminent danger of failing, although some industry insiders speculate that a shakeout could begin in about a year.

There has already been one fatality in the young industry: Office Station, Carol Stream, Ill., a division of the Ben Franklin variety store chain, sold its two stores to local operators last summer.

This year, expansion will be almost frenetic with the ambitious plans laid out by most operators. In addition, 1989 could be a transition year for the industry as chains become less reluctant to make public offerings. So far only Staples, Newton, Mass., has said it plans to become a publicly held company this year, but several other chains told *DSN* that while they have no immediate plans to become public, such a move is a possibility "down the road."

If Staples successfully becomes a publicly held company, it will be the fourth megastore chain to turn to the public sector for financial support. Last June, Office Depot, Boca Raton, Fla., became the first publicly held megastore firm in the industry. Next was Office Club, Concord, Calif., and HQ Office Supplies Warehouse, the new Los Angeles-based chain that plans to begin opening stores this month. HQ entered the business as a public company; the others were launched privately.

These four companies are not the only publicly held companies in the business, however. Office Square, with two units in Chicago, is part of Builders Square, a subsidiary of K mart. And, two-unit Office Shop Warehouse, McKeesport, Pa., is part of the G.C. Murphy division of Ames stores. Both firms, which entered megastore retailing during 1988, have not released 1989 expansion plans.

The most aggressive expansion plans for 1989 were released by Office Depot, which now operates 26 stores.

David Fuente, chairman, said Office Depot expects to have between 50 and 55 stores by the end of 1989, making it the largest chain in the indus-

(Continued on page 126)

Office Supply Megastores

Chain	First Store Opened	Number of Stores 1/88	1/89	12/89*
Staples Newton, Mass.	May 1986	16	22	39
Office Depot Boca Raton, Fla.	Nov 1986	14	26	50-55
Office Station** Carol Stream, Ill.	Jan 1987	1	0	0
Office Club Concord, Calif.	Jan 1987	5	15	27
Office America Richmond, Va.	Aug 1987	1	5	15
WORKplace St. Petersburg, Fla.	Nov 1987	3	5	12-13
Office Shop Warehouse McKeesport, Pa.	Mar 1988	1	2	NA
Office World Great Neck, N.Y.	Apr 1988	2	4	12
BizMart Arlington, Texas	May 1988	3	10	28
OfficeMax Cleveland, Ohio	Jul 1988	2	3	12-15
Office Square San Antonio, Texas	Aug 1988	0	2	NA
Jaffe's Miami, Fla.	1963†	7	10	20
Arvey Paper & Office Products Chicago, Ill.	1970†	36	36	40-42
OW Office Warehouse Virginia Beach, Va.	Dec 1988	0	1	11
HQ Office Supply Warehouse Los Angeles, Calif.	Jan 1989	0	2	10-14

**projected* †*First megastore opened in 1987* ***out of business*
Source: DSN research

New HQ Office Supplies Warehouse To Open Two Megastores in Los Angeles

LOS ANGELES — The newest addition to the deep discount office supply industry is HQ Office Supplies Warehouse, a venture led by retail veteran Robert J. McNulty, founder of HomeClub and the now ailing All American SportsClub.

The new megastore chain, the 14th in the industry, will open its first two stores in the Los Angeles area this month followed by two more in February, according to Brad R. Tukey, president and chief executive officer.

By the end of 1989, HQ will have between 10 and 14 units, initially clustered in Southern California, said Tukey.

The stores will range in size from 25,000 square feet to 35,000 square feet and contain 8,000 to 9,000 sku's of general office supplies. HQ also identified several power departments: furniture, office machines and software.

(Continued on page 126)

Particularly strong sales in apparel (as at this Green Bay, Wis., unit), contributed to a sales gain of 10% at Prange Way last year. (DSN photo)

Prange Way Opens 7 Newly Acquired Stores

By Kenneth M. Chanko

GREEN BAY, Wis. — Prange Way has just opened seven newly acquired and renovated stores in Wisconsin, and more acquisitions, as well as new store openings, are on tap for this thriving Midwest discounter, according to president Larry Sommer.

Prange Way, the general merchandise discount store division of Sheboygan, Wis.-based H.C. Prange, acquired the seven Schultz Family Stores early last month. The seven are located in Antigo, Plymouth, Reedsburg, Rhinelander, Shawano, Sturgeon Bay and Waupaca, Wis. A Schultz store in Owatonna, Minn., was acquired in a separate transaction in November and reopened the day after Thanksgiving Day with what Sommer described as "outstanding business."

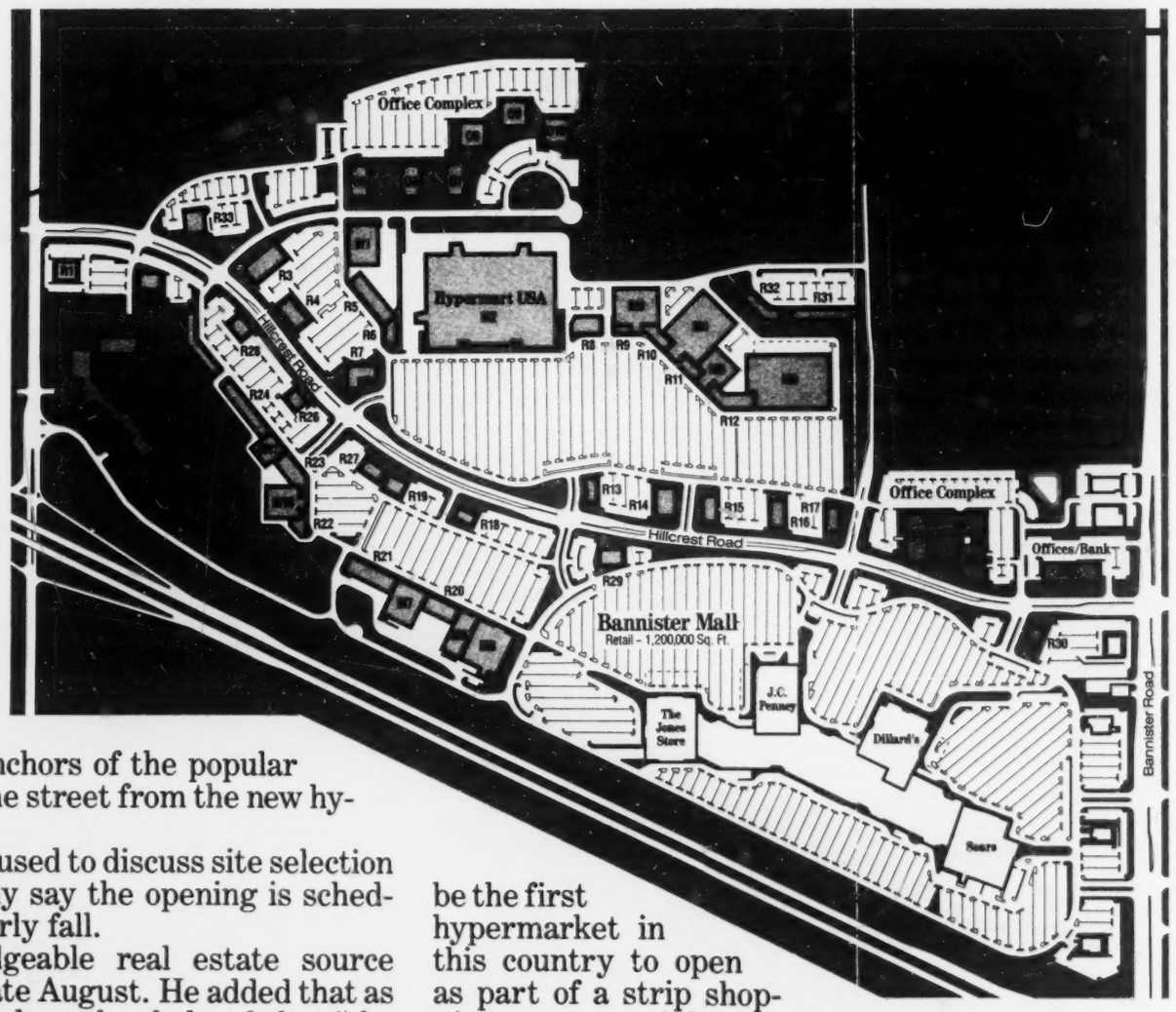
Formal grand opening ceremonies for the seven stores, which brings to 25 the total number of Prange Way units, will be held in April. All but two of those units are located in Wisconsin.

(Continued on page 126)

Fourth Hypermart USA to Join Dept. Stores in Kansas City Mall

BENTONVILLE, Ark. — In a departure from past site selection strategy, Wal-Mart's fourth Hypermart USA will open in a newly developed strip mall and office complex across the street from an existing traditional mall.

Scheduled to open in late August as part of Benjamin Plaza in southeastern Kansas City, Mo., Wal-Mart's newest Hypermart USA will be competing with numerous specialty discounters in the plaza as well as Sears, Dillards, JCPenney and The Jones Store, the anchors of the popular Bannister Mall across the street from the new hypermarket.



Wal-Mart officials refused to discuss site selection strategy, and would only say the opening is scheduled for late summer/early fall.

However, a knowledgeable real estate source pegged the opening to late August. He added that as of last month, the ground was leveled and that "the site was just turned over to Wal-Mart—ahead of schedule." The hypermarket is expected to open before other stores in the plaza.

The source would not comment on whether the approximately 268,000-square-foot hypermarket space would be leased, saying only that some ownership deals have been arranged in the new strip mall and office complex. Wal-Mart officials would not comment, either.

Wal-Mart's three existing Hypermart USAs are "destination stores," in that they are not close to other major shopping complexes. Each must attract traffic on its own. This fourth Hypermart USA will be the first hypermarket in this country to open as part of a strip shopping center within easy walking distance of a traditional mall.

Technically, the Hypermart USA, which will cover 6.3 acres, will be freestanding, though it is part of the 173-acre shopping and office complex. Benjamin Plaza is being built adjacent to the 82-acre Bannister Mall, which has over 1 million square feet of retail space and houses over 180 smaller stores in addition to the four anchors.

When completed, Benjamin Plaza and Bannister Mall together will total 2.1 million square feet of retail space with 12,800 parking spaces, making it one of the largest retail shopping complexes in the United States.

EDITORIAL

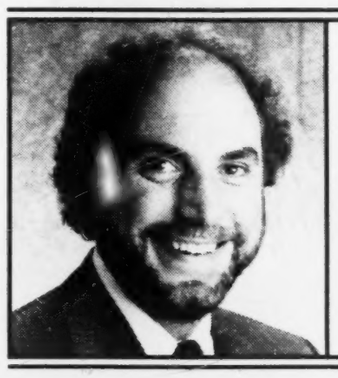
Newsmaker Sears Merits In-Depth Look

Sears, hypermarkets, K mart, Wal-Mart, Ames and Zayre. What do they have in common?

Well, Sears is not opening a hypermarket, nor is Ames or Zayre—not yet anyway. But Wal-Mart did and K mart is about to. And all eyes are focused on Atlanta where American Fare will debut on January 29.

These names were among the top newsmakers of 1988. And all indications are that they will repeat in 1989.

As retailers prepare for two of this year's most important shows—CES beginning January 7 in Las Vegas and Housewares beginning January 15 in Chicago—these topics and others will be discussed on the floor.



TONY LISANTI
Editor

One topic everyone wants to know about is Sears' new merchandising strategy. As rumors surface and hypotheses develop, *DSN* will continue its own investigation. In fact, *DSN* will devote its entire March 20 issue to the nation's largest retailer and its impact on discount retailing. This marks the first time in the 26-year history of this publication that Sears, or any mass merchant, will be the focus of a special full-issue study. Why? Consider the following:

"But then, quite suddenly, Sears began to fall apart. Within five years, the seemingly invulnerable company would appear so badly injured and so lacking in direction that it verged on paralysis . . . Once-loyal customers had begun to stay away from Sears stores and to avoid the company's venerable catalog in such numbers that it appeared the American middle class, which Sears had decorated and lent physical definition over the years, had given up on the floundering company altogether.

"Nobody at Sears was able to fathom what had happened, and nobody had any idea what to do . . . An organization that only five years earlier had seemed utterly unstoppable was now a crippled leviathan, and by 1977 many of those who depended upon Sears, who studied it or loved it, had come to believe that if something was not done very quickly, the company was doomed."

Deja vu? These are excerpts from the introduction to Donald Katz's book, "The Big Store," which was published in 1987. Maybe it's time for another in-depth look?

Wal-Mart and Ames will again be top newsmakers in 1989. Industry observers still wonder whether double-digit sales increases will continue for the Bentonville chain and whether the Rocky Hill chain can digest its Zayre acquisition.

Then there's the unknown. Who will be the stellar performers in 1989, and who will be the casualties? Will there be more mergers, acquisitions and LBOs? You bet. Look for catalogers to continue to rebound, warehouse clubs to continue their record pace of growth, electronic shopping to make a lot of news, but not a lot of profit, and some regional chains that many observers have written off to show some signs of life.

And look for *DSN* to break the news and tell the story.

Enjoy the issue—its new look, expanded coverage of major categories including consumer electronics and housewares, and the debut of a special section, Home Office Merchandising, devoted to this fledgling category.

WASHINGTON REPORT

Deficits May Become a Taxing Matter for Bush

Top officials of the incoming Bush administration are being urged to consider a new tax on consumer spending as an option for reducing the federal budget deficit.

Among the "consumption tax" variations suggested to the Bush transition team by the General Accounting Office: a national sales tax; a European-style value added tax; and an equally radical personal expenditure tax.

KEN RANKIN

None of these alternatives are likely to prove popular among discounters and other retailers who have traditionally opposed consumption taxes for fear that they may chill consumer spending.

Similarly, GAO's proposals drew a chilly reception from the president-elect, who campaigned on the promise of "no new taxes."

According to agency officials, that's one campaign promise Bush won't be able to keep in view of the need to trim the mounting deficit.

"Based on past experience it will be extremely difficult to bring down the deficit solely through management efficiencies and spending cuts," GAO Comptroller General Charles A. Bowsher warned Bush transition officials. In a report outlining the new administration's consumption tax options, GAO officials suggested that these new revenue raisers could be easily phased into the present system.

"Under a personal expenditure tax, which would replace the individual income tax, individuals would pay a tax only on their consumption," the report explained. "Withholding would continue and individuals would be required to file an annual form with the IRS similar to the form filed for income tax purposes."

In contrast, "under a national retail sales tax, the compliance burden to file the appropriate form and pay the collected tax would be placed on retail businesses," the agency added.

GAO officials placed most of their emphasis on detailing the merits of a VAT, which would be collected at each stage of the production and distribution process.

Citing estimates by the Congressional Budget Office, GAO officials predicted that "a comprehensive, 5 percent VAT could bring in almost $117 billion annually, while one that would exempt food, housing, and medical care could yield about $67 billion annually."

IMRA PRESIDENT'S CORNER

Bush's Call Echoes Kennedy's Appeal to Youth

When I was growing up, my grandfather and father always told me about several events in their respective lives which had great impact on them.

When I got older, I realized that most of my friends had been told the same thing about the same events, namely the stock market crash of 1929 and the bombing of Pearl Harbor. People not only remembered these events, they had a vivid recollection of where they were and what they were doing when the event occurred. My father remembered the particular discussion he was having when Pearl Harbor was bombed.

RICHARD HERSH

For persons in my age group, the assassination of President Kennedy has had the same type of "stamp." I, too, am able to remember clearly where I was. Indeed, I was working as a disc jockey on the college radio station when the wire service machine let loose with "twelve bells." All of us who had heard the alert thought that there was something wrong with the machine, since that particular signal had been used only a handful of times.

Soon after the final news arrived telling us that the President was dead, the Mutual Broadcasting System called and asked several students to go to Washington to work as stringers. Naturally, by the time we got to Washington all we could do was stand in along line to view the bier of the President.

I was amused at how many persons denigrated President-elect Bush's call for "a kinder and gentler America." Perhaps he did overuse the phrase, but that was exactly what the Kennedy presidency offered to the youth of 25 years ago. Certainly the Kennedy administration did not solve the many problems facing it, but it seems to me that George Bush has a unique opportunity to make good on his goal. He will be following a popular president who has left a legacy of good feeling among many Americans, and he will enter office at a time when relations among the world powers have taken a turn for the better.

Those of us who saw our idealism shattered that day in Dallas greatly look forward to "a kinder and gentler America."

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No Place Like Home

New research reveals that 25% of all U.S. households have at least one person who works in the home regularly or occasionally

By Laura Liebeck

Working at home has become so popular in today's fast-paced society that 25 percent of all U.S. households have at least one person who works in the home regularly or occasionally, according to just-completed research conducted exclusively for *DSN*'s new *Home Office Merchandising* supplement.

Leo J. Shapiro & Associates, the Chicago-based consumer research firm, found that these at-home workers spend a mean average of 20.7 hours a week on job-related projects at home, and half of those home workers have established office settings specifically for their at-home work. Overall, 23.9 percent of U.S. households have set aside areas in their home to do office work.

In addition, half of the home workers purchased at least one out of the nine items of office equipment studied in this survey in the past year. Another three in 10 report they are planning to make an office equipment purchase for their at-home business use within the coming year.

Most of the equipment purchases were intended for at-home use, although a small portion of the survey respondents said they purchased the equipment for use at work.

Equipment such as telephones, personal computers, computer software and office furniture, particularly desks and chairs, were the items cited most often as likely purchases for the next 12 months.

When these consumers set out to buy office equipment for their home office business environment, 90 percent of them said they would go to a retail outlet, and not a wholesaler or distributor.

Survey respondents said they were most likely to shop for office equipment at a department store, especially Sears, followed by consumer electronics and appliance outlets, particularly Radio Shack, and retail discount department stores. At-home workers were more likely to name electronics and appliance outlets first, followed by department stores and retail discount department stores.

Traditional discounters such as K mart, Wal-Mart and Target received comparatively few mentions as likely stores respondents would go to purchase office equipment.

The relatively young deep discount office products retailers, such as Office Depot and Staples—which were not mentioned by name in the survey—also received relatively few mentions as stores in which consumers would shop for office equipment. Specialty full-price office retailers and wholesale office suppliers were named more often than the new megastores.

Other outlets mentioned by home workers as likely places to make their business equipment purchases were warehouse clubs, catalog showrooms and computer stores.

The results of the survey were based on a nationwide sampling of 450 households.

The home office respondents tended to be younger, more affluent and better educated than the entire sampling, the survey revealed.

"In a word, working at home defines an upscale, high-quality market," said George Rosenbaum, president of Leo J. Shapiro & Associates.

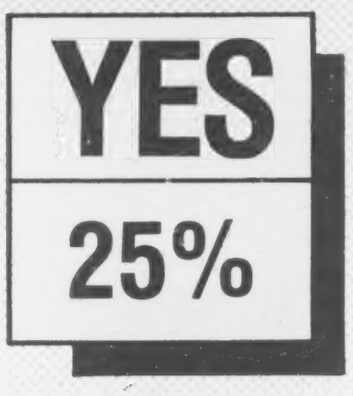
Specifically, the survey reveals the following facts about home office workers:

- They have a median age of 35.9 years;
- 94 percent hold high school degrees or beyond;
- 83 percent have an annual family

(Continued on page 41)

The Home Office Market

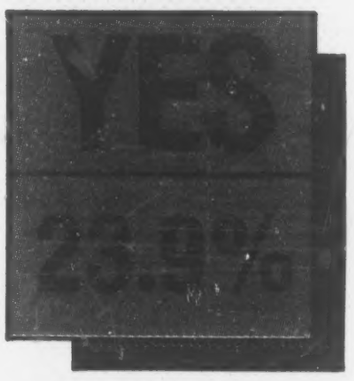
Is there anyone in your household who regularly or occasionally works at home?



How many hours per week?

20.7 hrs.

Does your home have space set aside as an office or special work area?



Source: Leo J. Shapiro & Assoc.; Nov. 1988

Home Sweet Home Office

TONY LISANTI
Editor

Home Sweet Home, er . . . Office! I mean Home Sweet Home Office! It's no longer a shock to anyone that America is entering the "age of the electronic cottage."

Sounds like a commuter's dream come true. Imagine your office a few "steps" from the bed, bath and refrigerator. According to Link Resources, 25 million Americans are working at home with that figure expected to reach 40 million by 2000. This growth has been partly fueled by technology (facsimiles, personal computers, modems, etc.) that has made communications quick, easy, efficient and affordable, regardless of distance.

In fact, the home office phenomenon represents a dream come true for retailers as well. The growth in home office has created a tremendous merchandising opportunity for electronics as well as stationery and furniture related products. The U.S. Commerce Department estimated the office supply industry as a $100 billion industry which is projected to reach $125 billion by 1990.

With this in mind, welcome to the premiere of Home Office Merchandising, a special section of *Discount Store News*. I must confess that I did not write this column at home, but I am in the process of setting up a home office.

I welcome your comments about this special supplement—whether you write a letter in your new "electronic cottage" or your old office away from home!

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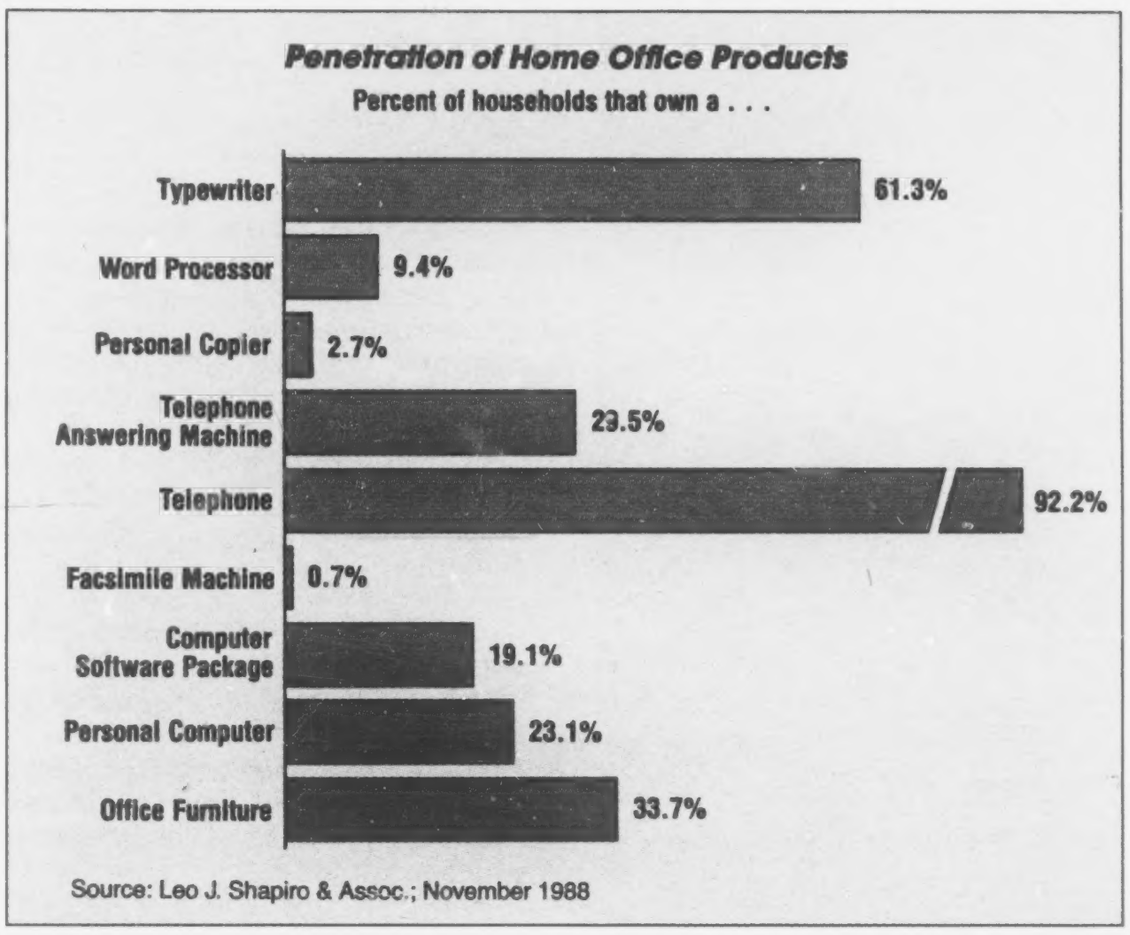
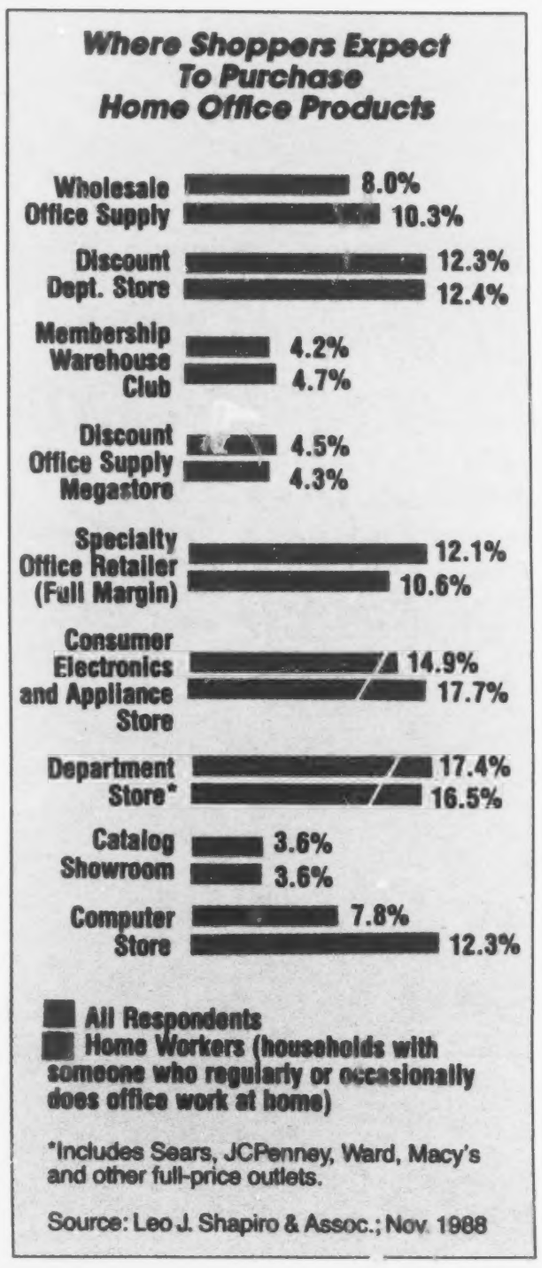
There's No Place Like Home


Penetration of Home Office Products
Percent of households that own a . . .
Typewriter 61.3%
Word Processor 9.4%
Personal Copier 2.7%
Telephone Answering Machine 23.5%
Telephone 92.2%
Facsimile Machine 0.7%
Computer Software Package 19.1%
Personal Computer 23.1%
Office Furniture 33.7%
Source: Leo J. Shapiro & Assoc.; November 1988


Where Shoppers Expect To Purchase Home Office Products
Wholesale Office Supply 8.0% 10.3%
Discount Dept. Store 12.3% 12.4%
Membership Warehouse Club 4.2% 4.7%
Discount Office Supply Megastore 4.5% 4.3%
Specialty Office Retailer (Full Margin) 12.1% 10.6%
Consumer Electronics and Appliance Store 14.9% 17.7%
Department Store* 17.4% 16.5%
Catalog Showroom 3.6% 3.6%
Computer Store 7.8% 12.3%
All Respondents
Home Workers (households with someone who regularly or occasionally does office work at home)
*Includes Sears, JCPenney, Ward, Macy's and other full-price outlets.
Source: Leo J. Shapiro & Assoc.; Nov. 1988

(Continued from page 39)

income above $20,000 with nearly 40 percent earning over $40,000;

- They're more optimistic about the nation's economy than others in the sampling;
- They're less likely to be the chief breadwinner, although nearly three-fourths are part of a dual-income family.

Logically, people who work at home tend to own more office-related equipment. According to the survey, twice as many home workers own or plan to buy typewriters, word processors, copy machines, telephone answering machines, telephones, facsimile machines, computer software packages, personal computers and office furniture as do non-home workers.

The only exception to the rule was in telephones, where the margin separating home workers from non-home workers was smaller due to the very high penetration of telephones and telephone answering machines.

Only two office equipment items showed small penetration by home workers: personal copiers and facsimile machines. This is probably due to the relatively high price tags of these products.

Fax machines, the item owned by the fewest survey respondents and the least likely to be purchased in the next 12 months, was purchased by less than 1 percent of all survey respondents in the past year, by 2.2 percent of home workers (those who bring office work home) and 4.6 percent of home-based office workers (those running businesses out of their home).

Only 0.07 percent of survey respondents said they planned to buy a fax machine in the next 12 months, compared to 1.6 percent for home workers and 3.4 percent for home-based operations. All three groups said they would expect to pay about $1,000 for a fax machine.

Personal copiers were purchased or listed as a planned purchase by slightly more survey respondents. Two percent of all respondents said they owned a copy machine, compared to 4.1 percent of home workers and 3.9 percent of home-based businesses.

Within the year, 2.5 percent of all respondents said they would buy a copier compared to 5.2 percent for home workers and 7.7 percent of home-based workers.

Each group expected to pay approximately the same amount of money for a copier: $744 for all survey respondents and $728 for home workers. Home-based respondents said they didn't know how much they would pay for a copier.

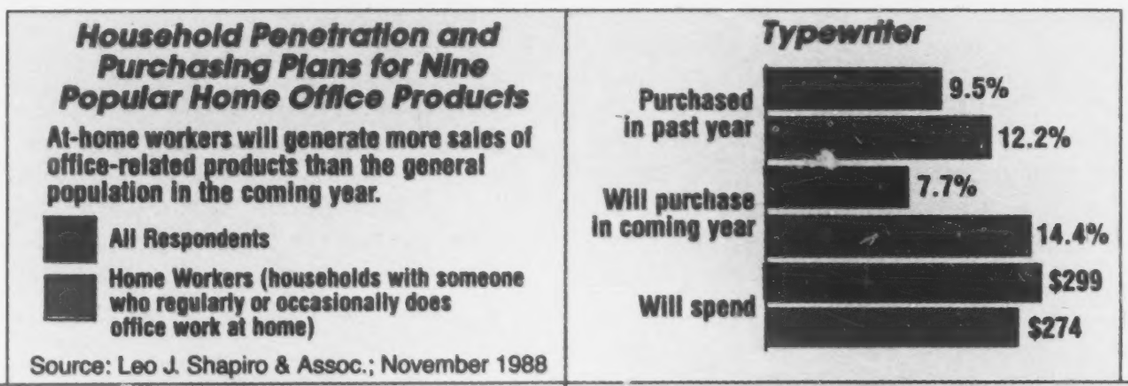
Among home workers, the most popular piece of business equipment purchased in the past year was, predictably, the telephone, followed by the telephone answering machine, office furniture, computer software packages, personal computers, typewriters and word processors.

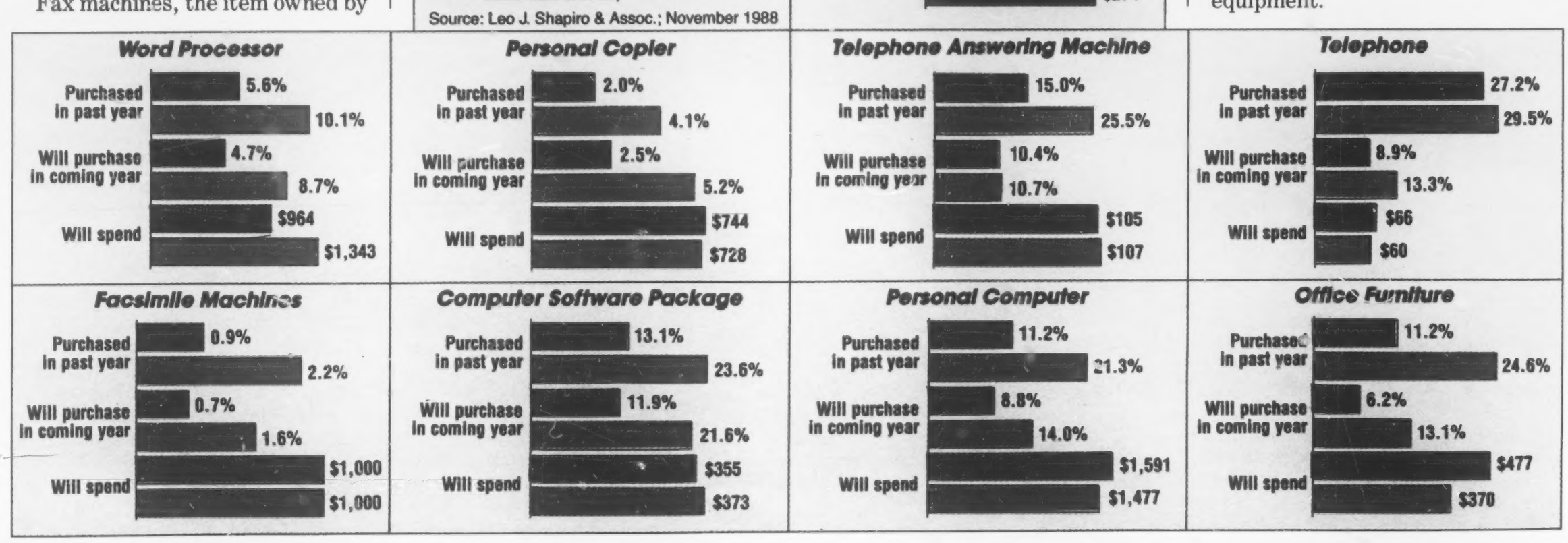
Within the next 12 months, home workers listed their likely business equipment purchases in the following order: computer software package, typewriter and personal computer.

For the home-based business worker, the shopping list would vary a little. Computer software topped the list, followed by a new telephone, a personal computer and office furniture.

When respondents were asked about the kinds of office equipment their households own, two surprises arose.

One-third said their households own a piece of office furniture, and nearly one-fourth said they own a personal computer, evidence of the growing acceptance of technology in the home and the many uses for the equipment.


Household Penetration and Purchasing Plans for Nine Popular Home Office Products
At-home workers will generate more sales of office-related products than the general population in the coming year.
All Respondents
Home Workers (households with someone who regularly or occasionally does office work at home)
Source: Leo J. Shapiro & Assoc.; November 1988


Word Processor
Purchased in past year 5.6% 10.1%
Will purchase in coming year 4.7% 8.7%
Will spend $964 $1,343
Personal Copier
Purchased in past year 2.0% 4.1%
Will purchase in coming year 2.5% 5.2%
Will spend $744 $728
Telephone Answering Machine
Purchased in past year 15.0% 25.5%
Will purchase in coming year 10.4% 10.7%
Will spend $105 $107
Telephone
Purchased in past year 27.2% 29.5%
Will purchase in coming year 8.9% 13.3%
Will spend $66 $60
Facsimile Machines
Purchased in past year 0.9% 2.2%
Will purchase in coming year 0.7% 1.6%
Will spend $1,000 $1,000
Computer Software Package
Purchased in past year 13.1% 23.6%
Will purchase in coming year 11.9% 21.6%
Will spend $355 $373
Personal Computer
Purchased in past year 11.2% 21.3%
Will purchase in coming year 8.8% 14.0%
Will spend $1,591 $1,477
Office Furniture
Purchased in past year 11.2% 24.6%
Will purchase in coming year 6.2% 13.1%
Will spend $477 $370

From corned beef to legal briefs, the call is clear: FAX IT!

Until just a few years ago, the words "fax it to me" weren't in many people's vocabulary. Things have changed radically.

Facsimile technology has become so widely available and affordable for businesses of all sizes that a fax is now considered a necessity in most offices.

It is, by most accounts, the hottest advancement in office technology now available. Businesses have found fax to be the fastest, easiest and cheapest way to communicate with one another.

"Who would have thought three years ago that someone would come into a store and give you $900 and carry a fax out under their arm?" said Steve Sink, president of Miami-based office products retailer Jaffe's.

Faxing is the electronic transfer of information over telephone lines. It provides the receiver with an exact copy of the sender's original document at a fraction of the cost of an overnight mail package and at a speed measured in seconds and minutes, rather than hours or days.

Perhaps the quintessential example of a small business taking advantage of the technology is a New York delicatessen owner who uses a facsimile machine to send and receive food orders.

Whatever the business, facsimile machines constitute an exploding market of opportunity for retailers who sell the devices. And the future is only expected to brighten.

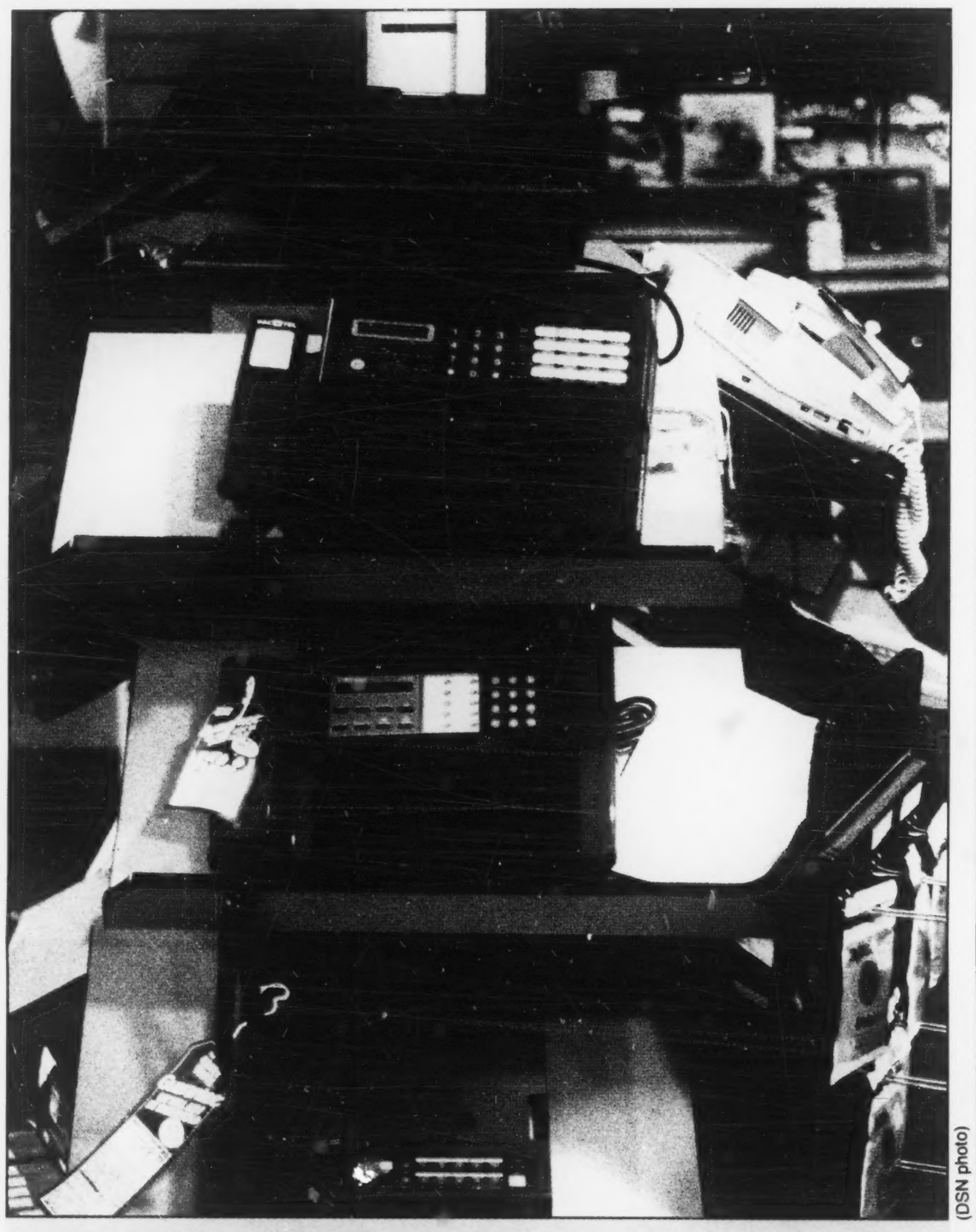
"There is a whole fax phenomenon now," observed Sally Wood, chief executive officer of Office America, Richmond, Va. "It's so short-lived, yet we wonder how we lived without them."

Indeed. Fax sales have skyrocketed in the last few years, and sales estimates for the 1990s are producing statistics that some call mind-boggling.

Facsimile machines are a $2.07 billion market domestically, according to the Computer and Business Equipment Manufacturers Association in Washington, D.C., up from slightly less than $1.5 billion in 1987. By 1990, CBEMA projects sales will top $3.1 billion.

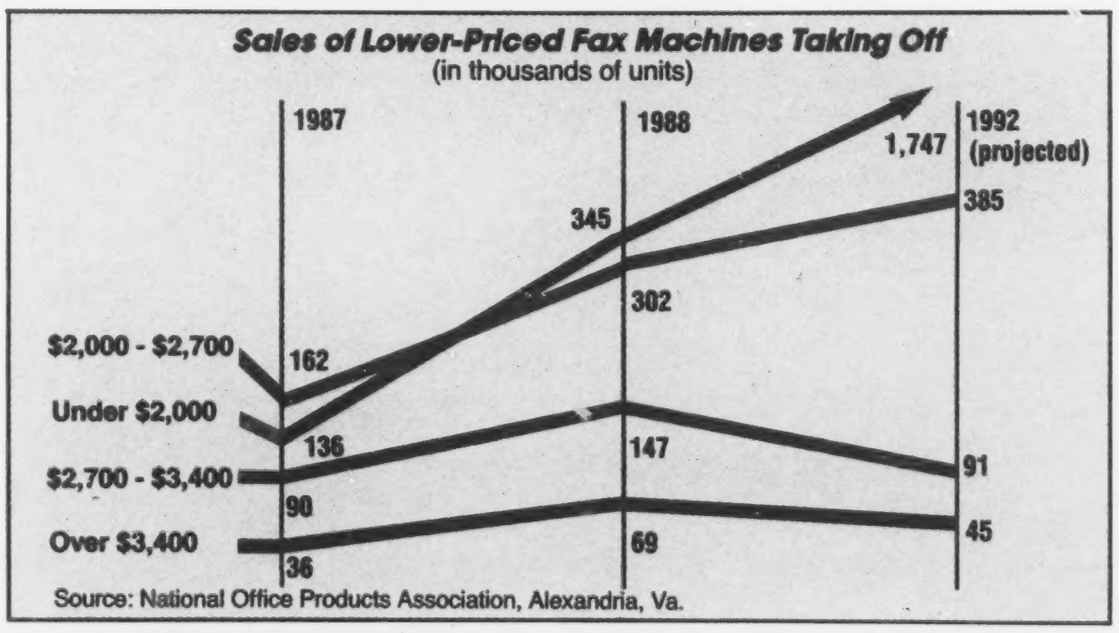
In terms of units, fax machines were projected to chart a 54 percent increase in 1988 over 1987, to 900,000 units from 583,800 units, according to CBEMA. The unit count was slightly higher than that projected by the National Office Products Association, which estimated 1988 unit sales at 863,000, up from 424,600 units in 1987. By 1992, NOPA predicts fax sales will jump to 2.3 million units, an increase of 166 percent over 1988.

The sales explosion is being enjoyed by all participants.



(DSN photo)

Facsimile machines at Crazy Eddie in New York: *exact duplicates in minutes at a fraction of the cost of sending documents by overnight mail.*



At Murata, a relative newcomer to facsimile manufacturing, sales more than doubled between 1987 and 1988 to $250 million. By the mid-1990s, Murata expects sales to hit the $1 billion mark, said Ed Propkop, director of consumer electronics. To help the company quickly achieve its goal, Murata is currently committed to a $12 million advertising campaign to stimulate brand awareness. That's three times the ad budget of the previous year.

Currently, fax machines aimed at small business customers are priced at under $2,000 and generally sell for between $700 and $2,000. The most popular price range appears to be under $1,000.

In fact, NOPA reports that in 1988 facsimile machines priced under $2,000 outnumbered higher-priced models in unit sales. This was not the case in 1987. By 1992, machines priced under $2,000 will outnumber machines in the next highest sales bracket by six to one. Sales of higher-priced models, those in the $2,700 to $3,400 price range, and machines priced at over $3,400, will decline dramatically by 1992, NOPA predicted.

Pricing is a big factor among the nation's new office products megastores, operators report. In fact, prices of fax machines have been declining recently to match price rollbacks at the manufacturer level, a result of increased production and technology advances.

But supply of fax machines remains a problem for retailers. Manufacturers have been hard-pressed to keep pace with the demand.

Despite that, retailers report that facsimile machines are the "hottest technology out there" and they are closely monitoring the business for new technology, brand names and special buys.

Many retailers report they are expanding their offerings in fax to present a broad range of products with assorted features.

During the first quarter of 1989, Newton, Mass.-based Staples expects to "beef up" its offerings in fax machines and is reconfiguring its entire office machine department to make room for product additions in several areas.

Staples wants to offer customers a selection of fax machines with different features, explained Todd Krasnow, vice president, marketing. Currently, Staples offers four fax sku's, a Sharp, a Ricoh and two Toshibas, ranging in price from $1,049 to $1,649.

At Arvey Paper & Office Products, Chicago, the fax machine offering "went from nothing to four models" in six months, said Michael Allen, manager of market development. "Fax is the hottest thing going," he said.

Currently, Arvey has its four-sku fax program in 11 of its 36 stores and will spread the program throughout the chain. Fax sales, said Allen, are exceeding plan.

Sales are being driven in large part, he speculated, by the company's facsimile service. Customers are introduced to the advantages of fax by using Arvey's fax service. After that, they wind up coming back into the stores to buy their own facsimile machines.

Ron Stegall, president of BizMart, Arlington, Texas, has observed the same behavior in his stores. And this year, Stegall is considering shaking up his fax mix and possibly expanding it, too.

BizMart offers several different fax brands, including Omni, Packard-Bell, Sharp and Medbar, a portable. The price range is $799 to $1,799, but the most popular is the $799 Sharp, he said.

Michael Feuer, co-partner of OfficeMax, Cleveland, said he probably will add to his fax offerings this year but at the upper end. He said customers are looking for a good, better, best selection and are particularly interested in some commercial grade machines.

Discounters Take One-Third of Small Electrics Sales

By Mary Ellen Kelly
Nationwide DSN Report

Ten percent to 15 percent of American consumers plan to buy a coffee maker, vacuum cleaner, microwave oven or hair dryer this year and, overall, more will go to a discounter for these purchases than to any other retail outlet, according to a study just completed by Chicago-based Leo J. Shapiro & Associates for *DSN*.

The survey of over 450 U.S. households revealed that 38 percent of those planning to buy any of 10 small appliances this year will probably go to a discounter for that item instead of a national mass merchandiser chain, department store, catalog showroom, membership warehouse club or specialty store.

The 10 appliances examined in the survey were: coffee makers, microwave ovens, toaster ovens, food processors, fans, blenders, irons, hair dryers, vacuum cleaners and electric shavers.

While discounters top the list of retail outlets consumers would go to for small appliances, membership clubs are making inroads in product categories like vacuum cleaners.

The number of people who would go to a discounter for an appliance dropped to 31 percent when both consumers who were planning to buy an appliance and those who were not planning to buy were taken into consideration.

National mass merchandisers like Sears, however, maintained an 18 percent response rate among the total group as well as those planning to buy in the coming year. Department stores and catalog showrooms both dropped from 8 percent to 7 percent when those who do not have immediate plans to make a purchase were compared to the population as a whole.

While discounters top the list of retail outlets consumers would go to for small appliances, membership warehouse clubs are making inroads in product categories like vacuum cleaners.

The Sears Kenmore brand is also gaining dominance in most of the 10 product lines studied, especially in microwave ovens.

The service offered by department stores continued to attract those customers who can afford to pay a little more for a little more service, as well as shoppers looking for the latest in trade-up appliances.

On average, the preference breakdown for different types of retail outlets in small appliances among all those surveyed (both those intending to buy an appliance in the next year and those who are not) was probably best reflected in coffee makers.

When consumers were asked where they would buy a coffee maker if they decided to buy one, 37 percent named a discount department store. National chains (i.e., Sears, JCPenney and Montgomery Ward) were mentioned by another 15 percent; department stores and catalog showrooms were the choice of 12 percent and 10 percent, respectively. Membership warehouse clubs were named by 5 percent of respondents.

In contrast, when it came to vacuum cleaners, membership warehouse clubs actually tied with discounters with a 17 percent response rate, while national chains outpaced both with a 24 percent response rate, most of those citing Sears.

Sears was named more often than K mart as the store consumers would shop for five of the 10 small appliances studied. Twenty percent of consumers would to go to Sears for a microwave oven while under 7 percent would go to K mart. This 13 percentage point spread was second only to the retailer preference for vacuum cleaners where K mart was named by only 5 percent of consumers compared to nearly 20 percent who named Sears.

For toaster ovens, food processors and fans, Sears beat K mart by 10, 4 and 1 percentage points, respectively.

Part of the reason why Sears was chosen for certain appliances over K mart—as well as Wal-Mart and other individual chains listed—was due to preference for the Sears Kenmore brand name. Kenmore was second only to General Electric for microwave oven and fan brand preferences. The Sears label was mentioned third most often for vacuum cleaners and fifth for toaster ovens and irons. In fact, the Sears label was among the top 10 of each of the small appliances studied in the consumer survey.

Even though General Electric sold its small appliance division to Black & Decker three years ago, GE continues to dominate the consumer's top-of-mind awareness for these products. GE was named most often for seven of the 10 items studied. Only for coffee makers, vacuum cleaners and electric shavers did consumers name another brand more frequently: Mr. Coffee, Hoover and Norelco, respectively.

Sears' dominance in microwave ovens could also be related to the anticipated price lev-

(Continued on page 106)

Consumers Prefer Discounters for Small Electric Appliances

Consumers who said they planned to buy one of 10 small electric appliances named the type of store they would visit to make their purchase:

Product	Discount Store	National Chain*	Catalog Showroom	Department Store	Warehouse Club
Coffee Maker	29%	18%	15%	16%	7%
Microwave Oven	20	19	7	10	9
Hair Dryer	57	17	6	6	8
Vacuum Cleaner	22	36	5	5	8
Iron	45	16	7	7	7
Electric Shaver	33	15	8	8	9
Food Processor	33	11	11	11	12
Blender	44	25	9	9	6
Fan	58	14	0	9	6
Toaster Oven	35	18	8	10	14
Average	**38%**	**18%**	**8%**	**8%**	**9%**

**Includes Sears, JCPenney, Ward*

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Discounters' Small Electrics Depts. Get Top Rating in Consumer Study

Nationwide DSN Report

Discounters evidently know who their small appliance shopper is and how to stock the department to meet their needs, according to a separate *DSN*-sponsored consumer study on discount department store product categories.

Sharper prices and broader selection will entice them to spend more of their growing budget for small appliances at discounters, the study found.

Of 15 major product categories, consumers in general were most pleased with discounter performance in small appliances, housewares and toys.

These departments received the highest grades from consumers who were asked to rate 15 product categories on the basis of how well those departments satisfy their purchasing needs.

Based on interviews with 900 households, the nationally projectable study examined 15 product categories that account for the majority of a typical discount store's sales.

The study looked at each category from the consumer's perspective: asking how many households are shopping discounters for each of these categories; how shoppers evaluate discount department stores compared to other types of retailers; and if they had plans to buy more or less from discounters during the coming year.

Consumers were asked to grade each merchandise category based on a nine-point scale with "9" indicating the best place to buy each category of goods, and "1" indicating the store which was "not so good" for that category.

Of the 15 merchandise groups, the highest-rated were toys (mean rating: 7.11), small appliances (7.08), and housewares (7.07), followed by toiletries and personal care (6.88), domestics (6.80), and stationery supplies (6.73).

In addition to finding the small appliance they need at a discounter, consumers also said they expected to spend more money on small appliances in the future, although not necessarily at a discount outlet. Seventeen percent said they planned to be buying fewer small appliances from discounters in the future but 25 percent expected to be buying more at discounters.

Consumers are generally pleased with discounters for small appliance purchases. Sharper prices and broader selection could capture more of this growing category.

Some resistance to buying a small appliance in a discount store was expected to limit the extent of future growth. Roughly 10 percent of consumers said if prices were lower they would shop a discounter more often for small appliances. Another 3 percent said greater variety would keep them coming back.

Consumers said 34 percent of all the money they spend on small electrics is spent at discount department stores, the third-highest percentage share of all departments studied. Respondents estimated they spend 43 percent of all dollars used for toys and 42 percent of all housewares dollars at discounters.

Microwave Sales to Drop In '89 as Market Saturates

CHICAGO — Microwave oven shipments are expected to continue a steady decline during 1989 as market saturation becomes a reality, according to the Association of Home Appliance Manufacturers.

Nonetheless, discount retailers told *DSN* they have not yet experienced much of a drop-off in consumer demand for microwave ovens.

The most current shipment reports stated that microwave oven and range shipments were down 14.2 percent for year-to-date in November. The association estimated that by the end of 1989, shipments will tumble by another 6 percent to 10.3 million units. AHAM had previously forecast that microwave oven shipments would drop by only 13 percent during 1988.

All totaled, the major appliance industry has had a fair year with shipments down only 1.7 percent. The growth of the replacement business for appliances other than microwave ovens was one reason given for its relative vitality. Air conditioner shipments boosted the industry average considerably with shipments up by almost 22 percent for November year-to-date, the largest increase for any of the appliances AHAM tracks.

While other appliances have a life cycle of about 10 to 15 years, there is no such track record for microwave ovens. "Microwave ovens have not been around long enough to know what the cycle is and when the replacement market will gather steam," said Mary Gillespie, spokeswoman for the trade organization.

Discounters Take One-Third of Small Electrics Sales

(Continued from page 105)
els consumers said they expected to pay for a unit. While many discounters are trying to keep microwave oven price points down, the highest concentration of shoppers—35 percent—said they expect to pay $300 or more for a unit.

Trade-up models are certainly what a large number of shoppers are looking for, and more service and guidance is probably preferred for such a high-ticket purchase. The mean dollar price consumers expected to pay was $245.34.

The study also indicated that about one-third of the time the microwave oven shopper is also looking to buy other appliances as well.

Of those who said there was a chance they would buy a microwave oven during the next year, 40 percent said they might also buy a toaster oven; 38 percent said they might buy an iron; 37 percent said they might buy a hair dryer; 30 percent were considering a food processor purchase; 29 percent said a vacuum cleaner might be on their shopping list; and 26 percent might also buy an electric shaver.

Consumers Purchasing and Spending Plans for Small Electric Appliances

Product	Percent Who Plan To Purchase In Next Year	Average Expect To Spend*
Coffee Maker	15%	$ 41
Microwave Oven	15	245
Hair Dryer	10	20
Vacuum Cleaner	10	218
Iron	9	30
Electric Shaver	8	37
Food Processor	8	79
Blender	6	38
Fan	6	43
Toaster Oven	6	46

**Includes those with plan to purchase in next 12 months plus those who do not have plans to purchase.*

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

In contrast, those interested in buying a toaster oven had little interest in the other appliances examined. While 31 percent of those interested in buying a toaster oven were also considering the purchase of a fan, there was less than a 30 percent response rate for all other small electrics listed.

Other purchasing inclinations include: 67 percent of those looking to buy a vacuum cleaner were also in the market for a blender; 42 percent of those who might purchase a blender wanted to buy a fan, and vice versa; roughly 40 percent of those who plan to buy a hair dryer also would like an iron, and vice versa.

The predominant price range shoppers were expecting to pay for small appliances was $20 to $40. More than half of all consumers questioned said this was the range they expect to pay for coffee makers, fans, blenders, irons and electric shavers. Expected price ranges on toaster ovens, food processors and vacuum cleaners were scattered, with some concentration at the high end and the low end.

For food processors, for example, 27 percent expected to pay between $40 and $60 while another 28 percent would pay between $70 and $125. While 32 percent would also pay $70 to $125 for a vacuum cleaner, 21 percent anticipated paying $300 or more.

Where consumers would choose to shop shifts considerably when including only those respondents who were planning to purchase a unit within the next year.

Twenty-seven percent of consumers who plan to buy fans within the next year said they would go to K mart for the purchase, the highest response rate for any individual chain listed (which included K mart, Wal-Mart, Target, Venture, Zayre, Sears, Montgomery Ward, JCPenney, Service Merchandise and Consumers Distributing). K mart also received the highest mentions for irons (16 percent) and hair dryers (22 percent).

As K mart perfects its year-old small appliances centralized merchandising system, these figures could climb. The company has already reported strong sales gains as a result of the system which ensures that all U.S. K mart stores are fully stocked with all appliances. Replenishment of the category is based on a yearly plan per store.

Wal-Mart was the preferred chain when it came to food processors and blenders, (14 percent and 17 percent) All warehouse club operators combined were a close second for food processors with 12 percent of those who plan to buy in the next year opting for those merchants. Sears and catalog showrooms were third with 11 percent each for food processors.

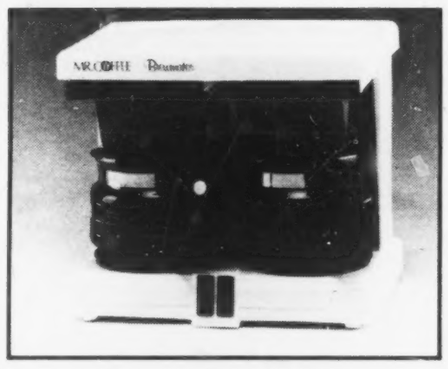
NEW PRODUCTS

High-Tech Denture Care

DentaPlus, Somerville, Mass., has introduced a denture care system combining electrosonic technology, cleansing tablets and fresheners. Equipped with two tanks with two sonic cycles, the unit flushes food and debris off dentures in one tank and freshens them in the other. The system includes a one-month supply of both cleansing tablets and freshener concentrate.

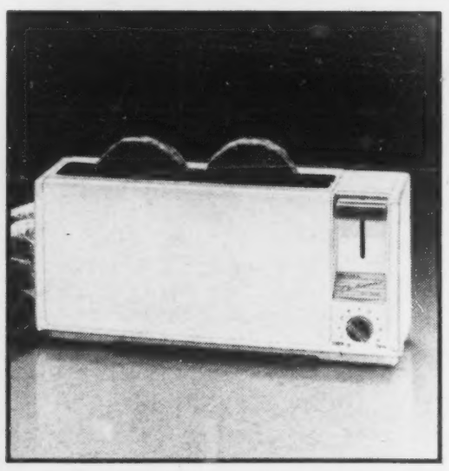
Two-Way Ultrasonic Humidifier

Soundesign, Jersey City, N.J., has introduced an ultrasonic humidifier with two decorative panels, one for adults and one decorated for a child's bedroom. The "Summer Circus" panel for children features several cartoon-like characters as well as a window indicating how much water remains in the tank. At full intensity, the humidifier vaporizes its entire gallon-and-a-half tank of water in 15 hours. Suggested retail price is $79.95.



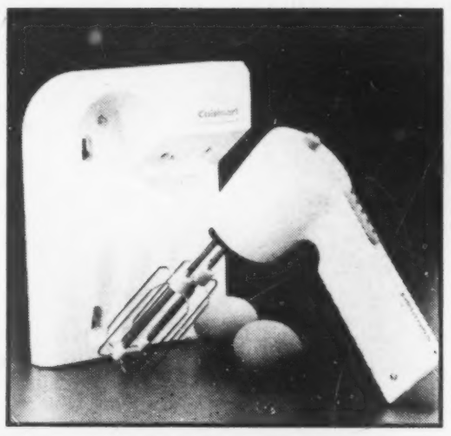
Brewmates

Mr. Coffee, Bedford Heights, Ohio, has introduced "Brewmates," a twin coffeemaker. The unit's design enables users to prepare four cupfuls of regular and decaffeinated coffee at the same time. Brewmates features two indicator lights to show that the units are on and two thermal fuses to prevent overheating.



Wide-Slot Toaster

New from Rival Manufacturing Company, Kansas City, Mo., is an electronic toaster with extra-wide slots. With one bread slot measuring 9⅞ inches long by 1⅜ inches wide by 5 inches high, the toaster accommodates bagels, onion rolls, frozen waffles and other convenience foods. The unit includes a tilting crumb tray for easy cleaning. Suggested retail price is $37.95.

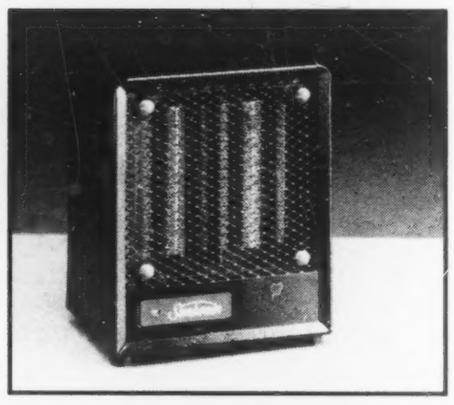


Cordless Mixer

Cuisinarts, Greenwich, Conn., has added a portable, cordless hand mixer to its line of cooking equipment. The unit features long, wire-like, stainless steel beaters designed to mesh tightly for fast, thorough mixing. Suggested retail price is $65.00.

Cordless Trimmer

New from Andis Company, Racine, Wis., is a cordless beard and mustache trimmer. Powered by two AA batteries, the trimmer is part of a grooming system that includes a blade guard, blade brush, comb attachment, styling comb, stand, trimmer oil and batteries.



Heat Cube

Northern Electric, Chicago, has introduced the portable Sunbeam Heat Cube. Featuring an automatic temperature control and a washable air filter, the unit produces heat using 1,500 watts of power.

Quick Coffee

Bunn-O-Matic, Springfield, Ill., has introduced an automatic drip brewer that makes coffee twice as fast as other brewers. With the stainless steel reservoir maintaining water temperature at approximately 200°F, the unit brews a 48-ounce batch in less than three minutes. Suggested retail price is $59.95.

How Best Was Bought

(Continued from page 1)
to recognize the cataloger's latent value.

Months earlier, British investor Gerald M. Ronson, through his Bearclaw Group, had acquired an 8.3 percent stake in the cataloger, while Pacific Financial Research, a Los Angeles investment group, had garnered a 7.2 percent share.

These purchases, and speculative investment by other buyers, were mainly made after Best's stock plunged from a pre-Black Monday high of around $18 to $7.50 at the end of that year.

Best's stock had reached the $18 level as a result of the turnaround that was being engineered in the mid-'80s by Huntley, then president, William F. Costello, then executive vice president, and a revitalized management.

In that revamping, Best sharply cut costs, strengthened its merchandising and operations and established sophisticated management information systems that were later to be marveled at by potential buyers. During the LBO negotiations, Best was able to quickly and fully provide whatever information any takeover firm wanted.

The result, which made Best a potential LBO target, was a slight drop in sales from $2.1 billion in 1986 to $2 billion in 1987 but a massive bottom line turnaround—from a $25.6 million loss in 1986 to a $30.5 million profit in 1987.

Huntley and Costello, who was promoted to president in March 1988, were justly proud of Best's accomplishments. That month during a presentation to the press and security analysts, they were asked about a potential takeover. They said that their main concern wasn't to entrench management but to increase shareholders' value—the stock was then trading in the $10 to $11 a share range. Their long-term goal was to boost Best's then 7.7 percent return on equity and reach its historic 14 percent to 15 percent ROE.

Little did they realize that before the end of the year stockholders would be in a position to sell their shares for a 150 percent premium from its then current stock price.

Shortly before Prospect made its public announcement in mid-August 1988, Huntley and Costello were approached by two investment groups—neither of which were Adler & Shaykin—interested in a possible LBO. While those probes were rejected, they had an important impact on Best executives: Together with Prospect's subsequent public play, the trio of unsolicited LBO offers clearly indicated that Best couldn't idly stand by while investment firms and speculators eyed the firm.

Best's 14D-9 filing on Oct. 11, which advocated that shareholders accept Adler & Shaykin's offer, noted that in mid-August 1988 Huntley recommended, and the board of directors appointed, a special committee to evaluate the "financial alternatives available to the company."

The committee's three members were independent directors with no financial ties to Best: Dr. Frank S. Royal, Thomas E. Capps, head of a utility holding company, and John W. Snow, chief of a transportation firm. They, in turn, retained Merrill Lynch Capital Markets and Wheat, First Securities as financial advisors and Wachtell, Lipton, Rosen & Katz as legal counsel.

Huntley and Costello didn't participate in some of the board's deliberations as they were seen as possible equity participants in an LBO. But they and Best's senior management provided input to the committee.

The committee's financial advisers concluded that only an LBO would produce the maximum return to shareholders. They rejected such alternative moves as a restructuring and special dividend, buying another company, or even selling out to another retailer. The committee felt any of these steps would provide less return to shareholders.

Management, meanwhile, didn't propose its own LBO. Huntley, a little over a year short of his 60th birthday, had decided he didn't want to devote the next several years of his life to the intensive activities that would be needed to make such a move successful. No one else was in a position to lead a management LBO.

A management "poison pill" adopted in December 1987 wasn't designed to stop a takeover, only force any interested party to negotiate with the board. Top executives, meanwhile, were protected by a golden parachute that gave them 200 percent of their salary and bonuses if control of the company changed hands and their responsibilities were diminished or they were fired. Best hasn't paid any bonuses for a number of years but has provided stock options which subsequently made a number of executives very wealthy, possibly millionaires.

On Aug. 29, 1988, the search for a friendly purchaser began, with Merrill Lynch contacting "several" LBO investment firms and "several" retailers. Twenty days later, one of these firms—not Adler & Shaykin—made a $21-per-share bid for Best Products.

That offer was quietly rejected—much to the surprise of a number of security analysts when it was publicly disclosed on Sept. 26. Many analysts had valued Best shares as worth in the low $20s and feared that there wouldn't be any higher bids. Some analysts even felt that Best didn't intend to make any deal.

Best's financial advisors, however, said the offer was "inadequate" to the shareholders. They knew that bidders were looking at Best's hidden values, its real estate and sophisticated management information system that could be leveraged in a number of ways.

But the rejected offer had a positive effect: it propelled Best's stock, which was trading at $15 a share before the bid, to a new high of just under $20 a share and set a floor price for future bidders.

With the preliminary scenes over, the stage was set on Oct. 4 for the short final act: picking the winning offer.

All the interested parties were told to submit offers on Oct. 7, with the finalist then to make personal presentations for the final evaluation by the board and its financial advisors by midnight.

Huntley attended this meeting, the 14D-9 filing noted, as he had "irrevocably committed not to participate as an equity investor " in any acquisition, removing any possible conflict of interest. Costello hadn't made a final decision on whether to make any equity investment and did not attend.

The final scene had five players, including cataloger Service Merchandise, Wesray Capital Corp., a well-known LBO specialist, and Adler & Shaykin, which made the highest offer at the beginning and end of the day.

No one knew any other firm's offer, so the bidding didn't become an auction. After the first presentation, the players were allowed to raise their offer and Adler & Shaykin, realizing its competition, increased its bid by a few dollars to the winning $27.50 a share.

Service, identified only as "another bidder" in the 14D-9 filing, indicated it was ready to increase its offer, "which was significantly lower" than Adler & Shaykin's "by an unspecified amount" if it received "certain additional detailed confidential information."

The board rejected this request because Service was "a direct competitor," the information could prove "harmful" to Best if Service wasn't the winning bidder and the time needed to supply the information would have meant losing "the opportunity" to accept Adler & Shaykin's offer. The board also questioned Service's ability to raise the financing for an LBO.

At the final judging, Adler & Shaykin was represented by its top executives, Fred Adler, a real estate expert who recognized the potential of Best's holdings, and Leonard Shaykin.

Those real estate holdings include Best's direct ownership of approximately 25 showrooms, with about 85 percent of the sites carried on the books as either owned or under long-term capital leases.

Was the deal really the best for Best's stockholders? They received $27.50 a share, much more than anyone anticipated when the Prospect Group made its announcement or the $21-a-share bid was rejected. But what if Best's management had boosted the ROE to the historic 14 percent to 15 percent high, what then?

"Everything would have had to go just right to achieve this goal, and it would have taken several years for the stock's price to reach $27.50. The bottom line is that shareholders received that price now," one source said in reviewing the drama.

Megastores Grow

(Continued from page 3)
try. Fuente said he intends to continue expanding the company over the next five years.

Other 1989 growth plans:

- Arvey Paper & Office Products plans to grow from 36 to about 42 stores;
- Staples, with 22 stores, expects to have about 39 units;
- BizMart, Arlington, Texas, expects to grow from 10 to 28 stores, half in existing markets and half in new markets;
- Office Club, which became a publicly held firm last month, plans to add 12 stores this year to its current 15;
- HQ Office Supplies Warehouse, which will have four stores in operation by February, plans to add between six and eight units;
- Office America, Richmond, Va., plans to grow from five units to 15;
- Office World, Great Neck, N.Y., expects to add as many as nine stores bringing its total as high as 13;
- OfficeMax, Cleveland, Ohio, now with three stores, expects to grow to between 12 and 15 stores;
- Jaffe's, Miami, with 10 stores, plans to add 10 more;
- Office Warehouse, Virginia Beach, Va., which opened its first store on Dec. 27, expects to add 10 more.

HQ Office Supplies

(Continued from page 3)
The furniture department, which will include both RTA and preassembled pieces, will comprise a 3,000-square-foot to 4,000-square-foot area in the center front of the store behind the checkouts. It will be a "low profile" area compared to other higher fixturing in the store and will act "as a traffic getter," said Tukey.

Unlike many megastore operators, HQ will feature a full office machine department, complete with personal computers. It also will maintain its own software department, stocked with 200 to 300 titles.

Tukey, like other top executives at HQ, including McNulty, was attracted to the office supply business from other retail sectors.

"The profile of the industry is very ripe," said Tukey, formerly senior vice president, general merchandise manager at HomeClub, the home improvement warehouse division of Zayre Corp.

Other top executives include: Chet E. Howard, executive vp, chief financial officer and secretary of the company, who came to HQ from Sports Authority., a sporting goods chain.

George Pursglove, vp and gmm, is also from HomeClub.

More Stein Marts

(Continued from page 1)
months ended Dec. 31, 1987, documents obtained by *DSN* revealed. In the 12-month fiscal year ended Jan. 31, 1987, it earned about $2.5 million in pretax operating income on sales of more than $93 million. In 1987, Stein Mart shifted to a calendar year reporting period, so full-year figures were unavailable for 1987.

Judging from its Nashville store, Stein Mart devotes about 80 percent of selling space to discounted men's and women's apparel, including such designer brands as Ralph Lauren for men and women and Ocean Pacific for men and boys. The balance of 20 percent is split among shoes, giftware and domestics.

Stein Mart is a family corporation headed by chairman Jake Stein, who founded the chain in 1934 with his wife Freda. Their son, Jay Stein, became president in 1981, and his wife Cynthia is corporate secretary.

The elder Stein, 77, owns 20 percent of company stock and his son, 43, owns 80 percent. Stein Mart shifted corporate headquarters to Jacksonville from Greenville, Miss., in 1984. Its single distribution center also is located in Jacksonville.

Prange Way Opens

(Continued from page 3)
Sommer told *DSN* that "acquisitions of this nature are ideal for us." He added that the company also plans to open new stores in 1989.

Prange Way posted $150 million in sales in 1987, and Sommer projected a 10 percent sales increase in 1988. Sommer said the year just past "is the best performance we've ever had." He attributed the strong results to a better in-stock position throughout the year and a continued focus on the chain's niche businesses, which include "back-to-basics soft lines and our lifestyle furniture department." He added that the chain's new big and tall men's wear department "exceeded sales expectations."

The reconverted Schultz's units are about 65,000 square feet, which is the size of Prange Way's prototype, first introduced in 1982. Prange Way also has several 75,000-square-foot and 85,000-square-foot units, but the future is in the smallest size.

The seven new openings were redesigned to the prototype, with a triple racetrack. Soft goods (apparel and shoes), to the left of the entrance, represent 40 percent to 50 percent of selling space.

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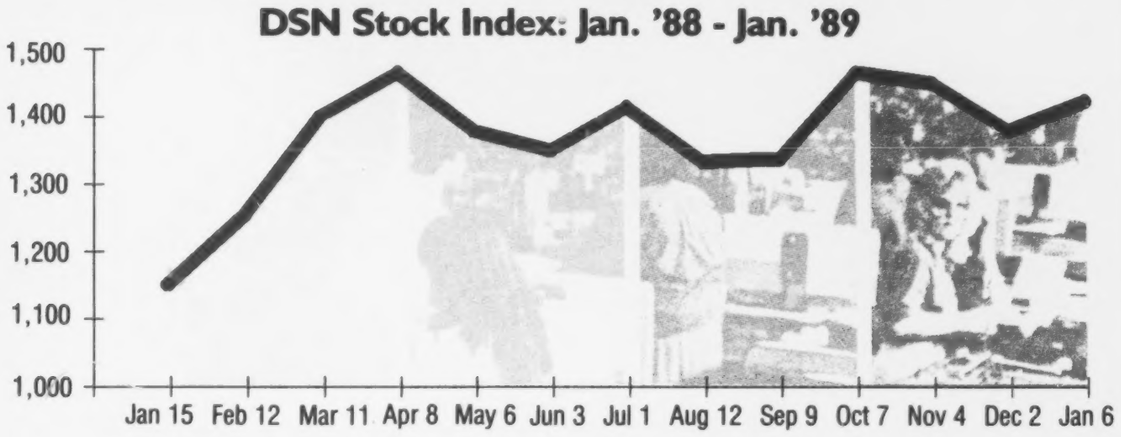
Outlook '89: The Big Squeeze

The Power of Leverage: Takeover Fever Likely to Rise in '89



Index of 59 publicly traded discount retailer stocks.
Source: Nordby International, Boulder, Colo.

By Neil Nordby
Special to DSN

News Analysis

The Greek mathematician Archimedes said, "Give me a lever long enough and a fulcrum strong enough and single-handed I can move the world."

Thousands of years later, Wall Street is heeding these timeless words of wisdom by employing takeovers as the lever and debt as the fulcrum to move the corporate world. As a result, the corporate profiles of many discount retailers were again altered in the fourth quarter of 1988.

1988 was clearly the year of the leveraged buyout due to the availability of billions of dollars in junk bonds. As a result, the stock prices of many retailers have been buoyed by takeover speculation, even though specific take-

(Continued on page 43)

Retailers Face Double Trouble: Higher Inflation, Slower Spending

By Richard C. Halverson
Nationwide DSN Report

Retailers in 1989 must weather a more difficult economic climate than in 1988—which turned out to be a surprisingly sunny year.

Economists tick off a number of factors that will pressure profits in 1989, especially a slowdown in the growth of personal income, which will translate into lesser retail sales gains.

In addition, an increase in the inflation rate threatens the profit margins of retailers, who will find it difficult to pass along expected wholesale price increases. Moreover, the continued shortage of qualified labor will mean higher wage and benefits costs.

Lea Tyler, senior economist for the WEFA Group, economic forecasters in Bala Cynwyd, Pa., emphasized that retailers won't see a "retrenchment in consumer demand, just slower growth."

This will be a year of caution for retailers, said Richard E. Mount, owner of Mount Economic Consulting, Middletown, N.J., and an economic consultant to *DSN*.

> ***'There's no reason for panic, but 1989 won't be as easy a year for retailers as was 1988.'***
>
> —Richard Mount, Mount Economic Consulting

"There's no reason for panic," he said, "but 1989 won't be as easy a year for many retailers as was 1988. Retailers will have to be a little tougher, a little more competitive."

Because higher short-term interest rates will boost the cost of carrying goods, controlling inventories will be the critical issue for retailers, Mount said.

Short term rates will rise throughout 1989, but not as dramatically as they did in '88, Mount predicted. Last year, the prime rate shot to 10½ percent from 5½ percent. Mount predicted the prime will peak at 11 percent.

(Continued on page 5)

Gitano Makes Deal For Children's Place

Haim Dabah

By Kenneth M. Chanko

NEW YORK — On the heels of going public, The Gitano Group has struck a deal to eventually acquire The Children's Place apparel chain.

In a separate agreement, the large apparel supplier to the discount industry purchased rights to the Gloria Vanderbilt trademarks.

In seeking to expand its business among mass merchants, department stores and specialty apparel chains, The Gitano Group paid $15 million in cash to Murjani Worldwide B.V. for the U.S., Canadian and certain other foreign rights to the Vanderbilt trademark.

In a complex deal, the Dabah family, which includes Gitano Group president Haim Dabah, will acquire all of the stock of a newly formed company which has contracted to buy The Children's Place from Federated Holdings Inc. The Gitano Group simultaneously obtains an option, exercisable for up to five years, to purchase the investor group's interest in The Children's Place businesses.

(Continued on page 5)

Brand Names at Everyday Low Prices

Sears Revamps Carpeting Depts.

By Peter Hisey

JERSEY CITY, N.J. — Sears unveiled its first chain-wide attack on its discount competition with the formal showing of its revamped carpeting department in this New York suburb.

"Sears will now carry the largest non-duplicated assortment of branded products in the market," said Ed Gilligan, national manager, floor coverings, adding that these brand names will be sold at an everyday low price.

By year-end, many Sears house brands will be dropped in favor of national brands, and eventually, every department will pursue an everyday low price strategy.

All 726 Sears stores that sell carpet have converted to the new format, which was intro-

(Continued on page 45)

Sears' introduction of national brands and everyday low prices foreshadows tougher competition for discounters.

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MARKETWATCH

Target Eliminates Rebate Coupons

MINNEAPOLIS — Target Stores has eliminated manufacturers' rebate offers at all its 341 stores. According to published reports, the discounter was paying out some $1 million a year to maintain rebate bulletin boards, process complaints, and in some instances, make reimbursement payments directly to customers.

Bizmart Plans to Open 18 Megastores

ARLINGTON, Texas — Bizmart has picked the Irving and Hurst areas of Dallas, the Overland Park suburb of Kansas City and the Olivette area of St. Louis as sites for four of the 18 office supply megastores it plans to open this year. Three other Bizmart's are planned for the Dallas/Fort Worth market this year to give the chain nine there. The expansion from 10 to 28 units will be aided by the $14.1 million in equity financing Bizmart obtained last month.

Wal-Mart to Appeal $11.5M Fine

BENTONVILLE, Ark. — Wal-Mart is expected to appeal a Texas judge's $11.5 million fine that was imposed because chairman Sam Walton refused a court order to testify in a personal injury lawsuit. The plaintiff won the case and received a $36,000 award for back injuries. Wal-Mart's fine accrued for nine days at the rate of $1 million per day before Walton gave up after fighting a six-month battle to avoid having to testify.

K mart Plans to Appeal $73.3M Award

PROVIDENCE, R.I. — K mart plans to appeal a court decision ordering the discounter to pay $73.3 million to a clothing wholesaler. A U.S. District Court jury ruled K mart broke a 1983 contract requiring the discounter to purchase 85 percent of Fashion House's name brand and designer apparel for K mart and now-closed Designer Depot stores. Fashion House charged K mart canceled the contract after the wholesaler filed suit for unpaid commissions. K mart claimed that Fashion House failed to obtain the name brands it wanted, and supplied goods in broken lots, odd sizes and unattractive colors.

Smitty's Taken Off Auction Block

PHOENIX, Ariz. — Smitty's Super Valu has been pulled off the auction block by its parent, Steinberg Inc. of Montreal, Canada, due to unacceptable bids. Steinberg, which didn't disclose the names of any companies bidding on Smitty's, had put the 23-store food and general merchandise chain up for sale in September.

Prodigy Enters Additional Markets

WHITE PLAINS, N.Y. — Add Washington and Baltimore to the list of a dozen markets that this year are due to get PRODIGY, the interactive computer shopping and information service. Prodigy Service Co., a joint venture between IBM and Sears, previously identified New York and Detroit as markets in 1989. This year, Chicago and cities in Ohio, Indiana, Texas and Florida also are likely to get the service.

Goldbro Hopes Jewelry Adds Luster

HUNTSVILLE, Ala. — Goldbro Jewelers has opened an 11,000-square-foot jewelry and giftware specialty showroom in the Madison Square Mall here as part of its plan to focus on jewelry as the key profits and expansion category in the 1990s. Goldbro's first enclosed mall unit—and second unit in Huntsville—sells diamonds, jewelry, watches and such giftware as clocks and flatware. Milton Goldstein, vp, said the store is a prototype for future units that will continue to place a greater emphasis on jewelry.

Saveco Closes Doors of Last Store

RIVERSIDE, Calif. — Saveco is liquidating merchandise and closing the doors of its last store. The membership warehouse, which had operated two stores, filed for Chapter 11 bankruptcy protection last April, and then in an effort to improve sales the company changed its store name to Value Mart and became a deep discount operator in September. The alteration was not successful.

Carrefour Consolidates HQ Location

PHILADELPHIA — Carrefour has closed its U.S. headquarters in Secaucus, N.J., and centralized operations at its hypermarket, opened here last February. Gerard de Ganay, executive director of American operations, resigned in December. Store director Regis Croizet is now carrying out his duties. Denis Defforey, chairman and ceo of Carrefour, Paris, was set at presstime to meet with executives of its American division to decide whether and where to build a second Philadelphia hypermarket.

Grocery Concern Stalks Big Bear; Harts Parent Seeks Higher Offers

By Mary Ellen Kelly

COLUMBUS — Grocery store operator Penn Traffic expects to succeed in its dogged takeover pursuit of Big Bear, parent of Harts discount stores, despite Big Bear's search for higher bids.

If Penn Traffic does acquire Big Bear, Harts has the potential to be developed into a chain of mini-hypermarkets similar to Big Bear Plus, said Gary Hirsch, chairman of Penn Traffic and managing general partner of its New York-based parent, Miller, Tabak, Hirsch & Co.

Penn Traffic last month offered $35 per share, or $315 million, for all outstanding common stock of Big Bear. Penn Traffic currently owns 14.5 percent of Big Bear's outstanding common stock. At presstime, no other bids had been made. Big Bear management deemed this bid "inadequate" and rejected the proposal. No executives from Harts or Big Bear could be reached for comment on the takeover bid.

The performance of Big Bear Plus—four combination food and general merchandise stores opened by Big Bear and Harts last year—could play a role in whether Penn Traffic decides to up its bid. "Big Bear Plus is a trial concept . . . I could envision building more, but I don't know how successful it is," said Hirsch. "It is one of the things we want to find out from the company before deciding how to proceed."

Penn Traffic is based in Johnstown, Pa. It operates 155 supermarkets and distributes food to 300 wholesale and franchise accounts. The stores, which operate under the names P&C, Riverside, Bi-Lo and Quality Markets, are located from Vermont to New York and west to the Ohio border. The Big Bear and Harts stores would be "a natural business extension," according to Hirsch.

(Continued on page 48)

CVN Set to Take Over Teleshopper

MINNEAPOLIS — CVN Cos., a diversified $587 million teleshopper, is poised to take over one of two bankrupt video retailers while it continues to study a "friendly" takeover offer from cable TV powerhouse Tele-Communications Inc.

CVN Cos.' proposed acquisition of America's Shopping Channel—in a joint venture with Cox Cable Communication—and its pending operational takeover of The Fashion Channel are the keys to the Minneapolis firm's strategy of offering cable systems an assortment of differentiated and segmented shopping shows.

ASC is a localized shopping service operating in four markets—San Diego, New Orleans, Tulsa, Okla., and Virginia Beach, Va. Viewers obtain the merchandise they order either by picking it up at a pre-designated ASC "store" in their local market or through home delivery, now being tested in San Diego.

The Fashion Channel, meanwhile, merchandises only clothing and accessories, which customers obtain through the traditional teleshopping method of ordering the item by calling an 800 number for mail delivery.

While CVN Cos. pursues its diversification, its latest response to TCI's acquisition offer (see *DSN*, Nov. 21, 1988, page 3) was to name Donaldson, Lufkin & Jenrette Securities Corp., and FBS Merchants Bank of Minneapolis as advisors to the special CVN Cos. board committee studying the TCI proposal.

The special committee was "conducting an extensive review" of CVN Cos.' business and operations and hoped to meet sometime this month with TCI, a $2 billion multisystem cable operator, which played a major role in mid-

(Continued on page 48)

2 Vice Chairmen Named As TRU's Ricken Retires

PARAMUS, N.J. — Toys "R" Us has abolished the position of president and chief operating officer and split the responsibilities of that post between two newly promoted vice chairmen.

Effective March 15, president and coo Norman Ricken will retire upon expiration of his contract. Taking over are new vice chairmen, Michael Goldstein and Robert C. Nakasone, who were promoted effective Jan. 3, announced TRU chairman and ceo Charles Lazarus. Both join the TRU board as directors. Ricken remains a director.

Goldstein, who had been executive vice president, finance and administration, continues as TRU's chief financial officer. In his new post as vice chairman, chief financial and administrative officer, Goldstein is also responsible for the Kids "R" Us children's clothing division.

Nakasone had been president of TRU's United States toy store division. As vice chairman and president of Worldwide Toy Stores, he takes on responsibilities for the company's International Toy Store Division, as well.

Goldstein joined TRU in 1983, when he left Lerner Stores as its vice president for operations and finance.

Nakasone joined TRU in 1985, leaving the position of group vice president, general manager of the Midwest division of Jewel Food Stores.

Ricken had served TRU for some 20 years, including seven as president and coo.

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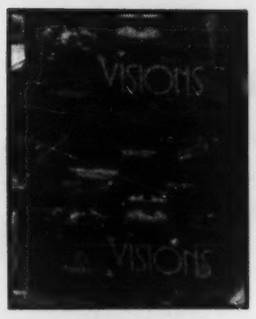

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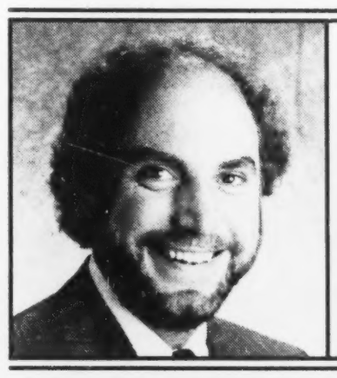
Don't Shy Away from the 'D' Label

What's wrong with being called a discounter?

What is it about the word "discount" that makes some retailers—and some vendors—cringe?

The answer is perception. It's amazing how differently companies in the same industry perceive the business they are in. There are still some retailers and suppliers that think "discount" is a dirty word. Or is it that they believe that the customer has a negative perception of a discounter.

There are discounters that really want to be discounters. There are other types of retailers that wish they were discounters. And, believe it or not, there are still discounters that do not want to be discounters. Furthermore, there are vendors that have developed specific products for discounters. There are vendors who sell to discounters, but somehow convey the impression that they would rather not. And there are vendors who do not sell to discounters, but wish they did.



TONY LISANTI
Editor

Times have changed. The word discount is no longer synonymous with cheap or inferior.

In today's retail environment, discounters are hot. Many of the best and most successful retailers in the country are discounters. And it seems that everyone wants a piece of the discount marketplace.

Why then is it so difficult for some retailers and vendors to accept the "D" word?

There is absolutely no reason why any retailer or vendor should be embarrassed by the discount monicker. Certainly, today's sophisticated customer doesn't care. In fact, today's customer wants value, convenience and quality and the discounter offers all three and much more.

Let's get back to basics. What is a discounter?

After listening to many definitions, I would like to define the word discounter in today's market: A promotional retailer that specializes in merchandising national branded products in a broad range of merchandise categories offered in a limited service format with at everyday low prices and special sale prices that are well below manufacturer suggested retail prices.

Simple. Easy. Accurate.

There are dozens of vendors such as Gitano, Brittania, and Rubbermaid that have grown and prospered as the discount industry has grown and dozens of retailers such as K mart, Wal-Mart, Target and Price Club that have found discounting to be a profitable niche.

The discount marketplace is more sophisticated than ever. As purveyors of national branded commodity merchandise and strong private label products, discounters will continue to grow their share of market and become the consumer's No. 1 shopping choice. Old-fashioned perceptions must change quickly before some retailers and vendors find themselves left out in the cold.

There is no reason to shun the "D" word. In fact, it could be one of your best marketing tools.

BUYERS & SELLERS

Shows Foretell Shortages of Low-End Products

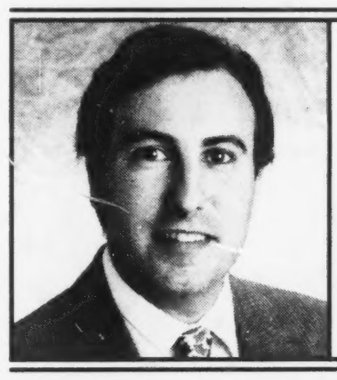
Where are the new low-end products?

A sampling of the new product offerings of consumer electronics manufacturers at this month's winter show in Las Vegas reveals an alarming dearth of new products for the mass market. A weakened U.S. dollar that has bumped sticker prices up by 5 percent to 15 percent on selected products as well as tightened overseas production could result in a shortage of mid- and lower-priced televisions and VCRs by year-end, warn many manufacturers and reps.

In other product categories, the same theme is emerging. Housewares vendors at this month's national show in Chicago are hoping that by unveiling some new motifs and styles they will be able to pass increased costs on to retailers, and presumably, to consumers. In some cases, manufacturers are putting a new face on old products in order to justify the higher ticket. In other instances, the quality of the merchandise is being lowered in order to maintain the same price level.

In this environment, manufacturers must develop products that are new and exciting, yet sport a low price tag. It will be interesting to see what's showing at the next flurry of upcoming shows. Will vendors at the Back-to-School, Toy Fair, Super (sporting goods) and Photo Shows have anything new for their discount store customers?

Last month, I asked for comments on a proposal by K mart chairman Joe Antonini that retailers take a greater role in product development research. The comments I received, both verbal and written, generally agreed with the philosophy that no one knows the retailer's customer better than retailers themselves. Yet, most responses stopped short of endorsing complete retailer involvement in the product development research and planning process. This comment from David Didia, president, Rokina International, an Irvington, N.J.-based manufacturer, importer and distributor of photographic products to camera specialty stores, mass merchants, discounters and catalog showrooms, typified the feeling of many manufacturers:



DON LONGO
Exec Editor

"We agree that the retailer should play a greater role in packaging, marketing and even design of products to give their departments an identity of their own. But, with regard to R&D, production and various elements, that is best left to the vendor."

More comments? Please drop me a note or give me a call at (212) 371-9400, ext 227.

WASHINGTON REPORT

Congress Revives Pay Equity, Wage Hike Bills

The 101st Congress is open for business and—whether the discount store industry is ready or not—federal lawmakers are already beginning to dump payroll-busting legislation into the hopper.

Building on last year's proposal by Sen. Edward Kennedy requiring employers to provide health insurance benefits to full- and part-time workers, Rep. John Dingell, D-Mich., has uncorked legislation calling for a full-blown national health insurance program.

Meanwhile, Rep. Mary Rose Oakar, D-Ohio, resurrected her controversial plan to establish pay equity for women by prodding employers to re-evaluate the comparable worth of jobs traditionally held by females.

KEN RANKIN

This legislation, which is grounded in the theory that female-dominated job categories are typically paid less because of gender discrimination, could lead to serious payroll disruptions in labor-intensive industries such as retailing.

The most direct threat to discount chain payrolls, however, was posed by a bill calling for a series of sharp increases in the national minimum wage.

Like the bill that died in Congress at the end of the 1988 session, the new measure (H.R.2), introduced by Rep. Augustus Hawkins, D-Calif., would boost the current $3.35 per hour wage floor to $4.65. That 39% jump would be accomplished in three steps beginning next year with a 50-cent per hour increase to $3.85. The minimum rate would then automatically rise to $4.25 the following year and hit $4.65 at the start of 1992.

Significantly, however, the new minimum wage bill does not include a key provision demanded by critics of last year's legislation: a special subminimum "training wage" covering newly hired employees.

During the 1988 election campaign, George Bush broke with the Reagan administration and most industry opponents of a rising minimum wage to declare his support for a compromise measure including just such a training wage.

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We welcome our readers' views, whether pro or con. Letters to the editor should be addressed to: **Editor, *Discount Store News*, 425 Park Ave., New York, NY 10022.**

Specialty Chains Sport Warehouse-Style Stores

Nationwide DSN Report

Starting with this report, *DSN* is updating its sporting goods chain census chart to include the new megastore chains, both independents and subsidiaries of other chains.

Those include Sports Town, Atlanta, a fast growing chain of 50,000-square-foot warehouse clubs; Sports Authority, Fort Lauderdale, a chain of warehouse size stores (also 50,000 square feet in size) based in large part on warehouse merchandising; and All American SportsClub, Los Angeles, the chain that pioneered the warehouse club concept in sporting goods.

SportsClub declared Chapter 11 bankruptcy last year and closed four of its eight units.

Other megastore chains now included are Super Sports, Princeton, N.J., a chain that Oshman's started in late 1987, and Sports Giant, San Antonio, Texas, a K mart warehouse club subsidiary set to open its first two 50,000-square-foot units in early spring.

Another indicator of the trend toward larger stores: Academy, Houston, has adopted a megastore prototype of 40,000 square feet, double its average store size of 20,000 square feet. Academy opened two of the larger stores last year, one in Houston and another in Corpus Christi, Texas, and expects to open four more in 1989.

Another new name on the top chains chart is F.W. Woolworth, New York, which entered sporting goods specialty retailing in October 1987 when it acquired Champs Sporting Goods, Fort Lauderdale, Fla., from Armel Inc. Last February, it bought Robby's Sporting Goods, Bradenton, Fla. In line with its thrust into specialty retailing, Woolworth operates 135 sporting goods stores, including four in Canada, under its Kinney Shoe Corp. subsidiary.

Woolworth has announced plans to go national under the Champs name, projecting a total of 555 stores by 1993. It plans to open some 50 new stores this year, increasing the rate to 100 per year by 1991.

Woolworth has announced plans to go national under the Champs name, projecting a total of 555 stores by 1993. It plans to open some 50 new stores this year, increasing the rate to 100 per year by 1991. Its stores average 5,000 square feet in size and offer a full line of athletic shoes, apparel and equipment, except for hunting and fishing.

Woolworth emphasized that it operates its sporting goods on a full markup basis, not at discount pricing.

Chain sales figures for 1988 were unavailable for this issue but will be included in the July 1989 census issue of specialty retailers.

Top Sporting Goods Chains

Chain	Store Count 1/89	Store Count 1/88	Average Size (In Square Feet)
Herman's[1] Carteret, N.J.	259	242	10,000
Thrifty Corp.[2] Los Angeles, Calif.	233	160	NA
Oshman's[3] Easton, Texas	195	213	10,900
F.W. Woolworth[4] New York, N.Y.	135	54	5,000
Academy Houston, Texas	24	23	20,000
Sportmart Niles, Ill.	21	18	40,000
Irving's Sport Shops Springfield, Va.	18	18	4,000
Sports Town Atlanta, Ga.	6	2	50,000
All American Sports Club Los Angeles, Calif.	4	8	50,000
Sports Authority Ft. Lauderdale, Fla.	3	1	50,000
Super Sports[5] Princeton, N.J.	3	1	50,000
Sports Giant[6] San Antonio, Texas	2	0	50,000

[1]Herman's includes Sunset Sports.
[2]Thrifty Corp. includes Big Five, Dave Cook, Gart Bros., Michigan Sporting Goods and Casey's Sporting Goods chains.
[3]Decline in Oshman's store count reflects sale of Abercrombie & Fitch division, as well as closure of a handful of stores. Also, total does not include Super Sports division.
[4]F.W. Woolworth includes Champs Sporting Goods and Robby's Sports chains.
[5]Super Sports is owned by Oshman's.
[6]Sports Giant is owned by K mart Corp.

Source: DSN research

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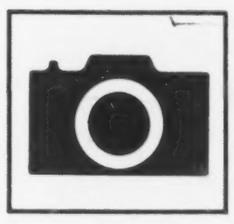
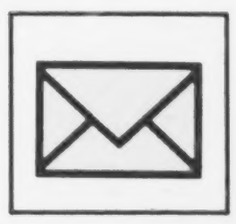
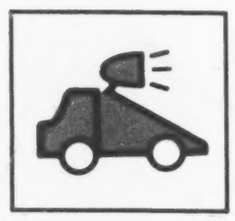


Photo Marketing Association's annual show will highlight new technology—still video cameras. 67



Soaring paper costs worry many retailers attending the 1989 Back-To-School Show in New York. 111

The Sporting Goods Manufacturers Association's fourth annual Super Show gets bigger and better. 121



At the super-secretive Toy Fair, Nintendo adds some pizzazz to the return-to-basics trend. 125

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K ma[rt's] American Fare hypermarket to be 'a fun place to shop.' (DSN photo)

A[merican] n Fare: Beyond Super Store

Features Upscale Ambience, Name Brands

By Kenneth M. Chanko

NEW YORK — In selection and depth, American Fare's perishables, horticulture, toys and apparel departments go "beyond anything currently being offered in a super store format," said Larry Parkin, executive vice president, warehouse and grocery operations at K mart.

Speaking at a seminar here at the NRMA convention two weeks prior to American Fare's Jan. 29 opening, Parkin filled in many previously unavailable details about K mart's initial foray into hypermarket retailing.

Parkin said that prices at American Fare will be lower than prices on general merchandise in regular K marts. There will be little overlap in specific merchandise; American Fare's product selection will be 100 percent branded.

Parkin said, "American Fare's total sku's will be less than others operating this type of format, but much more focused on the merchandise that fits our customers' changing lifestyle . . . American Fare will be a destination center for the categories it sells."

(Continued on page 57)

Wal-Mart to Test 'Vendor Store'

A Laboratory for Product Presentation

By Donald Longo

BENTONVILLE, Ark. — Wal-Mart will open a "laboratory store" this spring in which it will test vendor ideas on product presentation.

DSN has learned the "vendor store" will open in May, probably in Janesville, Wis. Sources participating in the program said Wal-Mart has given a key vendor in each category wide latitude in merchandising its department.

In effect, Wal-Mart has told its vendors, "Here's X amount of space. Show us how you would go about increasing traffic in your department, but keep it cost-effective."

The nation's No. 2 discount chain placed two major guidelines on the vendors: the merchandise must be priced consistent with Wal-Mart's standard mix and the program must be practical for rollout to all of Wal-Mart's stores.

Vendor proposals for the store range from simple reconfiguration of existing Wal-Mart fixtures to installation of new fixtures, signage and merchandise not usually sold in standard Wal-Mart stores.

"We will attempt to show Wal-Mart that we can sell more upscale goods in their store," said a manufacturer.

Sources also said that Wal-Mart originally considered locating the store in Houston, Texas—deep in Wal-Mart country. The site was switched to Wisconsin because executives felt the different merchandising of the vendor store would confuse regular Wal-Mart shoppers. Wal-Mart has just 14 stores in Wisconsin, compared to more than 200 in Texas.

Wal-Mart execs did not return phone calls and its public information office said it wasn't aware of the program.

Price Club to Open Home, Office Furnishings Stores

By Pamela Krein

PHOENIX, Ariz. — Price Club, in a major diversification move, plans to launch two home and office furnishings stores this spring as a test of a new concept.

The new Price Club Home and Office Furnishings Stores, approximately 60,000 square feet in size, will be adjacent to a Price Club warehouse in San Juan Capistrano, Calif., and down the street from one of its membership warehouses in San Diego.

Industry observers said Price Club would "explode" the home and office furnishings mix carried in its wholesale clubs with an expanded and more upscale assortment.

Price Co. executives released few details about the new format at the company's annual meeting here on January 17. The new venture was initially disclosed in Price's first quarter report handed out to shareholders, but the subject wasn't publicly discussed at the meeting. Instead, execu-

(Continued on page 145)

K mart Expands Martha Stewart's Role

New Program Premieres 1st Private Label Home Textiles

By Peter Hisey

NEW YORK — K mart will spend millions of dollars this year to make Martha Stewart a star.

At the same time, the company will introduce its first private label line of home textiles as part of a sweeping "At Home with Martha Stewart" program.

Stewart, until recently mainly known as a dining and entertaining consultant and writer, will now expand her involvement with K mart, acting as spokeswoman, designer and consultant for a wide range of home-oriented products—from comforters to joint compound.

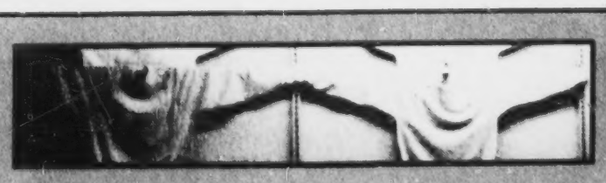
The program, which will feature a wide array of decor-oriented products in various K mart departments, will be supported by an ambitious series of national television ads set to hit the networks early this spring.

The Martha Stewart signature domestics products were created by three major domestics manufacturers: Cannon, WestPoint Pepperell and J.P. Stevens. The private label line includes sheets, pillow shams, bed skirts and curtains. According to K mart, the product line will be expanded considerably in coming months.

The national commercials, which will run beginning April 23 on programs like "Good Morning America," "Today," and "CBS Morning News," will highlight each of the 37 manufacturers who have cooperated with K mart in developing the "At Home with Martha Stewart" program.

In addition to the Big Three domestics suppliers, manufacturers include Dutch Boy, Newell, Rubbermaid, Kenney, Black & Decker, R.A. Briggs, Soundesign, Hoover, Corning Glass, Borden, Gemini Industries and GE.

(Continued on page 146)



Study Shows American Consumers Love Fleece 59

Labor Shortage in Spotlight at IMRA Human Resources Conference 5

MARKETWATCH

IMRA Readies Ad Conference

NEW YORK — The International Mass Retail Association will hold its 17th annual Advertising Conference at the Tampa City Center Hyatt Regency, Tampa, Fla., March 22 to 24. The conference will feature a discussion on "New Computer Graphics Technology—How It Affects Retail Advertising Departments." Speakers include J. Patrick Kelly, K mart Professor of Marketing at Wayne State University, and Stephani Cook, senior vp/director of new business development at Campbell-Mithun-Esty.

Sears Eyes Japan Apparel Venture

CHICAGO — Sears and its longtime Japanese partner, Seibu-Saison, are discussing a joint venture to open a children's specialty stores chain in Japan modeled on Sear's McKid's children's department. If an agreement is reached, the first stores could be unveiled by this fall. Japan has lowered barriers to foreign investments and Sears could become one of the first American chains to directly participate in the exploding Japanese retail market.

Wal-Mart's Johnson Retires

BENTONVILLE, Ark. — A.L. Johnson has retired as vice chairman of Wal-Mart to pursue personal interests. He remains a director. He was in charge of Sam's Wholesale Clubs, Hypermart USA and the specialty divisions.

Deal Aids Heck's Bankruptcy Approval

NITRO, W. Va. — The Hallwood Group, New York merchant bankers, has agreed to buy from Heck's creditors any stock and junk bonds the discounter intends to issue in partial settlement of its Chapter 11 debts. The deal helps clear way for Heck's to emerge from bankruptcy. The next hurdle is court approval of the agreement and Heck's plan to shut 20 stores, cutting its total to 55.

QVC, Sears Continue Teleshopping Deal

WEST CHESTER, Pa. — QVC has signed an agreement to continue to sell Sears merchandise on its teleshopping program for another two years. Sears products account for about 15 percent of QVC volume, which should be about $200 million in the fiscal year ending this month.

ICL Buys POS Scanner Manufacturer

LONDON — ICL, a computer and software systems vendor, has acquired DataChecker Systems, a $200 million POS scanner maker, from National Semiconductor for $90 million. ICL, whose American arm supplies systems to discounters, hypermarkets, catalog showrooms and other retailers, also obtained rights to use some National Semiconductor system patents and trademarks.

Caldor Challenges State Ad Ruling

NORWALK, Conn. — Caldor has filed a lawsuit challenging a new Connecticut regulation which forbids retailers to advertise an item at the price which results after a consumer redeems a manufacturer rebate. The state said advertising the net price of rebated merchandise was "deceptive." The company asserts that ads aren't deceptive as they explain to consumers that the reduced price is only effective once the vendor rebate has been redeemed.

TCI Drops Bid to Buy CVN Cos.

DENVER — Tele-Communications Inc. doesn't plan to reactivate a leveraged buyout bid for teleshopper CVN Cos. that was dropped when CVN's stock surpassed TCI's offer. TCI had offered $18 a share for CVN, but the teleshopper's stock reached $18.50 a share before sliding about $3 when the TCI bid was dropped.

Developer Purchases Club Wholesale

CHICAGO — Paul Stepan & Associates, a real estate developer based here, has purchased for an undisclosed sum Club Wholesale, a $75 million membership warehouse that operates five stores. Under its new ownership, Club Wholesale closed its Gardena, Calif., unit, but plans to open more stores in the Pacific Northwest.

Sears to Shut 4 Catalog DCs

CHICAGO — Sears plans to close four of 10 catalog merchandise distribution centers during the next 18 months as part of the restructuring of its merchandise division. Three catalog DCs have already been shut as Sears moves to consolidate and speed up catalog merchandise deliveries through more specialized facilities. The restructuring includes separating retail store and catalog inventories by July into separate operations to increase accountability of the merchandise division by specific business segments.

Ward Expands Auto Division; Adds Leased Specialty Services

CHICAGO — In line with its switch to specialty retailing, Montgomery Ward has agreed to lease space in some of its Auto Express automotive centers for quick lube and auto glass replacement shops.

Starting with the Auto Express in Livonia, Mich., Quaker State installed the first of 24 Minit-Lube Centers slated in 1989 for Ward auto centers in January. Quaker State is leasing two or three bays in the Ward auto centers for its quick lube centers, and Quaker State employees will staff them. The decor of the conversions will make them resemble normal Minit-Lube Centers.

The 24 conversions will be in addition to 238 company-owned Minit-Lubes and 105 franchised outlets.

Ward operates 295 Auto Express centers, 10 of which are freestanding and not associated with a Montgomery Ward store.

The 24 Minit-Lubes will be put into Auto Express centers in Michigan, Kansas, Ohio and California.

In a similar venture, Montgomery Ward has agreed to lease space in as many as 50 Auto Express centers to SAFELITE, Wichita, Kan., for auto glass replacement shops.

The first glass shop opened Dec. 31 in Frederick, Md.

SAFELITE operates more than 550 shops nationwide, offering sunroof installation as well as auto glass replacement.

Montgomery Ward recently adopted a new, low everyday pricing policy, but SAFELITE will set its own pricing policy, said Ward spokesman Chuck Thorne.

Ward set a precedent for such ventures by leasing excess space in four Ward stores to Toys "R" Us for toy shops within its stores.

When Ward switched to a specialty retailer format, from full-line merchandising, excess space in stores became available, Thorne said.

Ross Stores Plans New '89 Prototype

NEWARK, Calif. — Ross Stores is moving aggressively into 1989 with plans to introduce a new prototype, plus open four of its relatively new small stores.

The off-price apparel chain's new full-size prototype will sport major changes in adjacencies, checkouts, exteriors and dressing rooms. The chain has also refined fixturing, segmentation and interior design in the new stores, according to Ross' chief financial officer Earl Benson.

Last summer, Ross unveiled an updated version of its existing full-size prototype that featured a brighter color scheme, new fixtures and more departmentalization. While these changes only modernized the existing layout, the new prototype will create an entire new Ross format.

"We needed a whole new look to keep up with our customers," Benson told *DSN*. The executive said the first stores under the new format should open in March or April.

The 140-store chain is also set to open more smaller-sized stores during the year. Introduced last fall in two small California cities, the stores are between 11,000 square feet and 14,000 square feet—about half the size of a typical Ross store.

Because of the reduced space, the primary focus is on women's apparel, shoes and accessories. Benson added, however, that some of the larger small stores can also carry men's.

Ross' full-size 25,000-square-foot stores carry women's—including petites and large sizes—men's and chil-

(Continued on page 145)

Antonini Hosts Inauguration Gala

K mart chairman Joseph Antonini (left) hosted a reception for officials of the Reagan and Bush administrations on the eve of last month's Presidential Inauguration. Honored guests at the affair, held in Washington's Sheraton Carlton Hotel, included former Education Secretary William J. Bennett, incoming Housing and Urban Development Secretary Jack Kemp, and CIA Director William Webster. The gala was co-sponsored by Seymour and Marc Holtzman (right) of Gruen Marketing.

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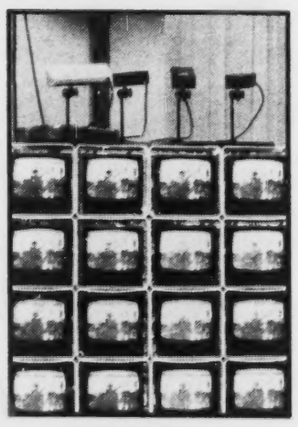

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APPAREL

WOMEN'S/MEN'S/CHILDREN'S/HOSIERY/JEWELRY & ACCESSORIES/UNDERWEAR/INTIMATE APPAREL

A Growing Feeling for Fleece

By Kenneth M. Chanko

American consumers love the comfort of fleece, and the demand for casual and activewear apparel made from this fabric will remain strong through 1989.

A *DSN*-commissioned survey of consumers representing a cross section of the adult American population revealed that as many as two-thirds of all consumers own clothing made of fleece.

Moreover, nearly half of all surveyed said they would either "definitely" or "probably" purchase more fleece items this year. Another 32 percent indicated "maybe" they would make such a purchase. Out of 450 households sampled, less than 9 percent said they would "definitely not" buy fleecewear.

Discounters topped both mass merchants and department stores as consumers' No. 1 source for fleecewear.

The demand for fleece tops/sweatshirts was greatest, with more than half (53 percent) wanting such an item. Matching suits/sweatsuits (28 percent), and fleece bottoms/sweatpants (23 percent) were the next most popular fleece products.

Responding last month to a wide range of questions about fleecewear, consumers resoundingly confirmed the continuing trend toward wearing fleece apparel more for relaxing than working out. Two in three consumers said they "more often" wore fleece apparel for non-sweat-related pastimes than for sweat-inducing activities.

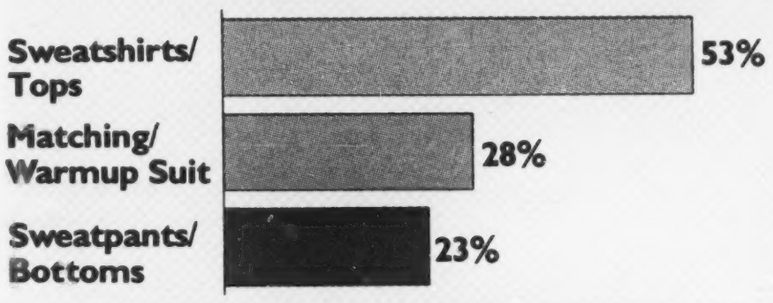
Fleece is most popular with a younger age group and with women, the survey revealed. Respondents who "definitely or probably" will buy fleece in the coming year had a mean age of 42. Those who responded "maybe or definitely not" had a mean age of 47. Similarly, those likely to buy fleece this year were more often women (57 percent) than men (43 percent).

Significantly, discounters are seen as the major source for fleecewear in the eyes of the American public, the survey found. Of those who said they would buy fleecewear, more than one in three (37 percent) consumers spontaneously named a discount store when asked where they would go to purchase such items. Mass merchandisers and department stores (both 23 percent) vied for the second spot. And an additional 42 percent, when asked directly, said, "there is a chance" that they would purchase fleecewear at a discounter, with only

(Continued on page 62)

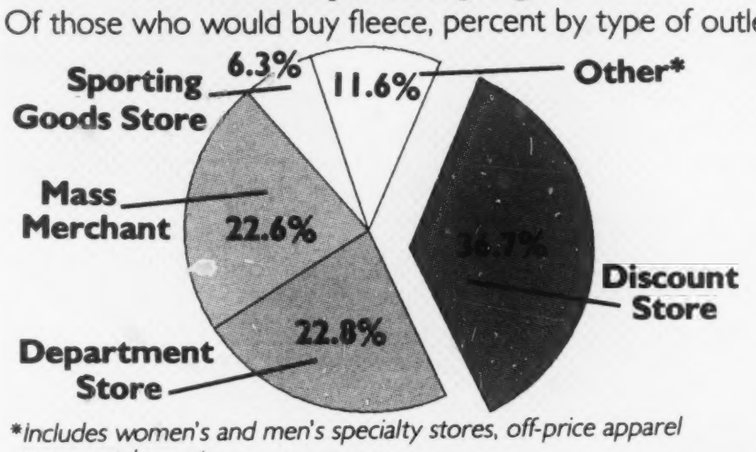
The Demand for Fleece

Percent of respondents who would buy fleecewear:



Where They're Buying Fleece

Of those who would buy fleece, percent by type of outlet:



**Includes women's and men's specialty stores, off-price apparel stores, catalogs, etc.*

Source: Leo J. Shapiro & Assoc.; Discount Store News

Cocooning In Fleecewear

KEN CHANKO
Senior Editor

It's Saturday morning and you know you're going to be able to spend most of the day lounging around your house. Maybe you'll do one quick errand that will take you to a nearby store. So, do you put on your jeans or your sweatpants? Your T-shirt or your sweatshirt?

If you're like most people, you're much more likely today to go with the sweats—or fleecewear—than the denims and shirt compared to 10 or so years ago. I've arrived at this conclusion through both a personal poll of family, friends and business associates and a logical extrapolation of data from a national survey on fleece apparel commissioned by *DSN* (see story above).

The Leo J. Shapiro & Associates survey revealed that many people see something "special—even healing—about putting on your sweats." It's not difficult to see why. Fleece is probably the most comfortable fabrication around, and other positives include its ease of care and its modest cost compared to most other fabrics.

But what fleece really has going for it is demographics and leisure-time trends. Here's what I mean. Ask yourself why unit consumption of denim jeans in this country has been flat to slightly off over the past several years, while the demand for apparel made of fleece has been rising.

I think it's safe to say that, on average, the older one gets the more one starts to pay more attention to comfort than fashion. While denim is a more stylish fabric, it isn't as comfortable as fleece. So as the baby boom generation heads into its late 30s and early 40s, the shift from jeans to fleece is an obvious one. And I'm not talking about people never wearing jeans now and always wearing fleece. But even a one-item-a-year shift from denim to fleece—per person per year—adds up.

Now consider the whole "cocooning" trend, with more and more people choosing to spend their leisure time at home more and more often. I think you're beginning to see the overwhelmingly bright future in store—hopefully, *your* store—for fleece.

As a discounter, if you're not paying at least as much attention to the fleece category as you are to denim, you're missing out not only on sales, but, even more critically, on profits.

When consumers think fleece, they don't automatically think brand name, unlike the jeans category. So you're much more likely—if it's the right item, of course—to win the consumer over to a private label or neutral brand in fleece because of that non-brand consumer mindset. Which, in turn, means your margins won't be squeezed like they are in branded jeanswear.

I also must mention the men's big and tall and women's plus-size categories. Simply put, fleece couldn't be more of a natural for these categories. The bigger the customers, the more they demand comfort.

And when it comes to apparel, comfort—as we've seen—equals fleece.

American Consumers Have a Feeling for Fleece

(Continued from page 59)
14 percent not willing to entertain such a possibility.

Not surprisingly, consumers expect to spend less for fleecewear at discounters compared to other retailers. On the average, consumers expect to pay $26 for a fleece item, while those who said they are most likely to buy fleecewear at a discounter said they expect to pay just $18. Regardless of outlet, shoppers expect to pay an average of $23 for a shirt/top made from fleece, $23 for pants/bottoms and $33 for a matching top and bottom set.

In terms of individual stores, K mart (24 percent) was the most popular destination among those who would buy fleecewear. K mart topped all other mass merchants combined (23 percent), as well as all other department stores combined (23 percent).

The next most popular store was Sears (13 percent), with JCPenney (7 percent), Wal-Mart (5 percent), Montgomery Ward (3 percent), and Target (2 percent), following.

When asked to rate the specific qualities of fleece that makes the fabric attractive to them, warmth (36 percent), comfort (36 percent), and softness (35 percent) were most often mentioned. Ease of care/easy to wash (18 percent) followed most closely behind.

Asked to rank the importance of comfort vs. looks, an overwhelming 78 percent said comfort was more important. When the question was comfort vs. ease of care, comfort (67 percent) was the winner again. When matched against looks, ease of care (54 percent) won out.

In terms of the specific qualities of fleece that consumers liked, after ease of care came durability (5 percent), not binding/loose fitting (3 percent), absorbent (1 percent), "it breathes" (1 percent), and texture (1 percent).

Other responses (all below 1 percent) were "feels good/nice next to skin," "attractive, neat-looking," "no ironing required/doesn't wrinkle," and—very low down on the list—not expensive.

While there is a significant market for fleecewear in all colors and designs, three out of four respondents (77 percent) preferred solid colors to prints and/or designs.

As to specific colors, blue (64 percent) was the consumers' first or second choice. Gray (25 percent) was next, and then black (18 percent), red (16 percent), pink (14 percent), white (12 percent), and green (10 percent). Such fashion colors as burgundy/maroon, lavender/purple, blaze orange, and peach/coral were also mentioned.

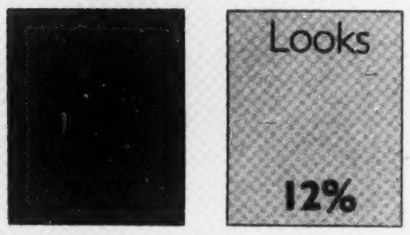
As for fabrication preference, cotton-blend fleecewear was only a slight favorite (51 percent) over all-cotton (42 percent).

Consumers showed little brand association in the category, with no single brand name dominating the consumer's mind when it comes to fleecewear. Only Nike (6 percent) and Adidas (6 percent) were named by more than 5 percent of all consumers when they were asked to think of labels, brand names or designers who make fleece apparel. Other brand names cited (in order of total mentions) were McGregor, Hanes, Russell, and Wilson.

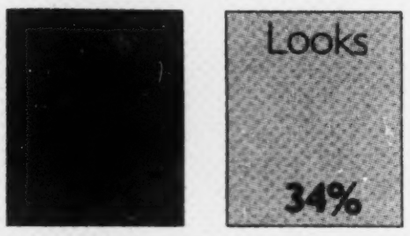
Why They're Buying Fleece

The qualities of fleece most important to consumers:

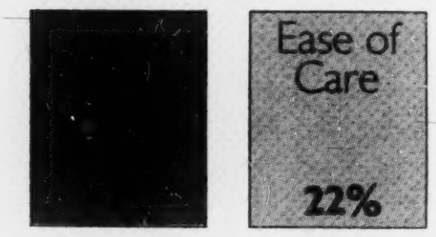
Comfort vs. Looks



Ease of Care vs. Looks



Comfort vs. Ease of Care



Source: Leo J. Shapiro & Assoc.; Discount Store News

How many pairs of jeans

Well, how many did you sell last month?

With IBM's in-store processing systems, you'd know just what to reorder.

In-store applications help you manage your business operations and inventory needs. Our Point-of-Sale systems can tell you how much of a particular product you're selling. This information can be processed in the store and then communicated to your headquarters, so that the items ordered to fill your shelves are the items your customers want.

In-store processing includes other useful applications, too. Labor

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HOME PRODUCTS

HOUSEWARES / DOMESTICS / PHOTO / CONSUMER ELECTRONICS / HOME OFFICE / RTA FURNITURE

Photo Supplies			
	1987	1988	Change
As percent of store sales	1.88%	1.67%	(0.21%)
Number of turns	4.14	4.07	(0.07)
Cumulative markup	25.48%	24.64%	(0.84%)
Shortage at retail	2.91%	3.93%	1.02%
Promo markdown at retail	3.79%	3.38%	(0.41%)
Clearance mkdown at retail	2.74%	1.85%	(0.89%)
Total markdown at retail	6.91%	5.19%	(1.72%)
Gross margin	16.34%	15.67%	(0.67%)
Sales per square foot	$675.06	$1,174.35	$499.29
Gross margin per square foot	$107.13	$ 182.79	$ 75.66

More Expensive Goods Boost Productivity

NEW YORK — While 1987/88 saw sales per square foot in discount stores plunge, photo departments were significantly more productive than ever before, according to a study conducted by the International Mass Retail Association. The Cornell Study, named for the university that compiles the results, found that sales per square foot in discount store photo departments nearly doubled this year, from $675.06 in 1986/87 to $1,174.35.

Elsewhere, photo departments did not fare as well. Expressed as a percentage of store sales, photo's contribution dipped from 1.88 percent to 1.67 percent, and gross margin also slid slightly, from 16.34 percent to 15.67 percent. Cumulative markup dipped to 24.64 percent from 25.48 percent, and inventory turns were also lower, 4.07 vs. 4.14 (still above hard lines and total store average). On the other hand, total markdown at retail also declined, from 6.91 percent to 5.19 percent of sales. Shortage at retail (shrink) increased markedly, from 2.91 percent of sales to 3.93 percent.

The dramatic shifts in shrink and sales per square foot figures may be explained, in part, to the advent of more expensive goods in discount store photo departments. While the gross sales rise significantly as price points rise, each episode of theft is more expensive.

Overall (apart from shrink and per square foot figures), declines were minor compared with complete store figures. Cumulative markup declined nearly 2 percentage points in hard lines and more than 1.5 points storewide, but less than 1 point in photo. Total markdown dipped across the board.

The key figure, however, seems to be sales per square foot. While nearly every major category experienced erosion of sales, photo boomed. Hard lines, on average, dropped to $152.07 from $204.49. Storewide, the figure fell to $120.42 from $178.03. Even if part of photo's growth per square foot is explained by some slightly smaller departments, the contrast with whole store performance remains startling.

New Video Technology To Greet Photo Buyers

NEW YORK — When buyers gather for the Photo Marketing Association's annual trade show, to be held this year at the Dallas Convention Center Feb. 12 to 15, they will be greeted with technology that may replace the massive film market.

Video still cameras, last year an exotic professional-use product, have moved into the consumer market in a big way. While they may be too expensive for most consumers today, the price is sure to come down.

The cameras use inexpensive, reusable computer disks to store visual information digitally. The information is then retrieved and either displayed on a television screen (goodbye slide projectors) or printed (ditto print film).

Besides being very expensive, the prints are, to date, not up to 35mm quality, and professional photographers will probably stick with film, at least for the foreseeable future. However, as prices drop and printing technology improves, the appeal to consumers should be enormous.

"The technology is still five years away, but we're looking at the end of the film business," said Ray Weikel, vice president, merchandise and operations manager, photo electronics division, Fred Meyer, the Portland, Ore.-based super store chain. "The technology looks very good."

Attendees will probably see another round of relatively inexpensive "bridge" cameras, as well as exciting promotional film programs from major suppliers like Fuji and Kodak.

Apart from still video cameras, major photo products that premiered or were announced at CES include Sharp's 90-minute compact videocassette, which will make compact camcorders more attractive than ever; added camcorder features, like animation functions on a new RCA model; and an inexpensive camera/radio combination from Keystone.

Still video cameras, like Canon's ZapShot (here at its CES premiere in January), will be one of the highlights of this year's PMA show in Dallas. (DSN photo)

Last year, attendance was a little over 20,000, and PMA, while refusing to make projections, expects similar results this year. PMA '89 will feature a lineup of guest speakers, seminars and workshops similar to those of recent years. Pre-convention highlights include a two-day golf tournament, management institutes and motivational seminars with football hall-of-famer Fran Tarkenton as the keynote speaker.

The trade exhibit floor opens Sunday, Feb. 12, and speakers include Stanley Marcus of Neiman-Marcus and actress Patricia Neal (spouse program). There will be a reception in the main lobby of the Convention Center at 6:00 p.m. Evening seminars will follow the reception.

On Monday Feb. 13, the full seminar series opens. Speakers in general sessions will include futurist Dr. Marvin Cetron, Ann Landers, and representatives of Polaroid, Olympus, Kodak, Standard Manufacturing and Bremson Data Systems.

Seminars continue through Wednesday. Speakers scheduled for the final days include columnist Jack Anderson and professional collector Set Momjian.

Full on-site registration costs $35 for PMA members, $60 for others, and most seminars and breakfast workshops cost an additional $7 or so.

For more information, contact PMA at (800) 248-8804 or (517) 788-8100 (Michigan).

SOUND BYTES

PETER HISEY
Assoc Editor

Holiday '89 Sales: Not So Ho-Ho-Ho

Now that the Christmas season is over, let's talk about Christmas. Next Christmas. From current indications, it won't be the same kind of ho-ho-ho holiday most CE retailers experienced in 1988—and has the potential to be an unmitigated disaster.

According to economists and analysts who addressed the recent NRMA convention in New York, the fourth quarter of 1989 will be a disappointment to retailers at large, with 1989 growth projected to be in the mid-single digits.

Ominously, however, it appears that major purchases (durable goods like cars and houses) will suffer horribly at the hands of inflation and consumer spending cutbacks. That trend could well affect upper-end audio/video equipment.

And, while sales projections of lower-end goods are favorable, it appears that those goods will be costlier and in short supply, as demand steps up and Korean and Japanese suppliers cut production and sell to more lucrative markets like Europe, Latin America and China.

CE retailers could be squeezed into the unattractive position of trying to sell a pickier customer on a limited selection of more expensive products. Most-wanted and least-expensive goods could be chronically out of stock come Yuletide '89, creating that most vivid of retail nightmares, bare shelves during the prime shopping season of the year.

According to U.S. representatives of major Korean vendors, shortages are inevitable. One prime cause: China needs refrigerators and its government is under pressure to supply them.

China is in a rather enviable position in this case. Korea, the major supplier of inexpensive refrigeration units, is short on raw materials, which China has in abundance. The net result: The Chinese will pay $125 in iron ore for each refrigerator, the United States will pay about $91 in cash. Guess who gets the refrigerators.

Another factor in projected shortages is the U.S. consumer, who has become addicted to steadily dropping prices. A cassette deck that sold for $350 in 1973 can now be had for a devalued $150. A 13-inch color TV which may have once attracted a premium price is now a loss leader.

Customers in Latin America and Europe, on the other hand, have never seen this level of discounting. And they regard most home electronics as luxury items, not commodities. They will pay more. Guess who gets the cassette decks, VCRs and color TVs.

At CES, manufacturers who used to offer six-month price protection to major customers will now only guarantee prices for 90 days. And few could guarantee second half delivery of certain products.

Which could lead to the situation a major East Coast retailer found itself in late last year. An order for 70,000 color TV sets to cover an extensive promotion was arbitrarily cut to 7,000 units by a Korean manufacturer. Goodbye promotion, goodbye profits.

There is no obvious solution to this dilemma. Until things readjust, retailers and consumers alike could be facing a bleak Christmas.

Price Club to Test Home & Office Furnishings Specialty Stores

(Continued from page 1)
tives discussed several other new endeavors pertaining to its warehouse clubs.

Price Co. president and chief executive officer Robert Price refused to elaborate on his plans when questioned by shareholders prior to the formal meeting.

Executive vice president and chief financial officer Giles Bateman did confirm to *DSN* the locations of the initial sites. Beyond this, he declined to comment on store size and format, product categories or number of sku's.

The quarterly report said Jerry Clark, a long-time Price employee, is heading up the new division, which will open two pilot stores this spring.

Another new project, the testing of Price Club's first one-hour photo processing lab at its Chula Vista, Calif., warehouse, propels the company into a hot service area.

While many warehouse clubs and discounters offer photo finishing, few chains have ventured into the one-hour business, leaving this segment instead to specialty retailers. Price Club opened the initial site in December, and is still testing the service.

Price Club continues to furnish seven-day photo finishing and first class direct mail-back at its other stores. The firm plans to move its photo processing center into the former A.M. Lewis grocery distribution center in National City, Calif., acquired last year.

The company's lens grinding lab—which services the chain's 18 optical centers—is already in that facility, and its meat processing plant will soon move there.

Another new endeavor is food packaging. Dan Carter, vice president of finance, told *DSN* that the endeavor goes beyond the multipacking of goods that vendors do for the clubs to include actual repackaging of manufacturers' products by Price Club. Candy and pasta are food items likely to become part of this program.

Price said the company is looking to expand its frozen food merchandising. He said the company is also exploring several other projects, which remain confidential.

Price also assured shareholders that while his father and Price Club founder Sol Price didn't seek reelection as chairman—rather becoming chairman emeritus—the senior Price is still very active in the firm.

Robert Price, who took on the additional title of chairman, said his father had been preparing the company's younger executives to take over Price Club's management for some time. Price said his father can now devote more of his time to entrepreneurial endeavors rather than company meetings.

Reviewing recent quarterly results, Robert Price said: "I think we did a good job in the first quarter, but I always think we can do better." During the period ended Dec. 18, 1988, the company's sales increased 22.2 percent to $1.57 billion, while net income escalated 25.9 percent to $38.9 million.

Price said a key asset of the A.M. Lewis deal was the real estate and facility in Northridge, Calif., which he said should be converted to a Price Club store later this year. The chain will open other new stores during the year in San Diego, Concord, Calif., Tucson, Ariz., and Babylon, N.Y., while relocating the Fountain Valley, Calif., and Glen Burnie, Md., units.

Price Seeks Shareholder Approval For New Dividend-Paying Stock

SAN DIEGO — The Price Co. plans to seek shareholder approval next month for the issuance of its first dividend-paying stock.

But confusion over the plan to issue a new preferred stock that would pay a $2.50 per share dividend may have caused Price's common stock to drop almost two points last month and remain in the $36 to $37 per share range.

The plan, due to be submitted to shareholders at a special meeting next month, calls for the distribution of one share of preferred stock for every five shares of common stock. After shareholder and regulatory approval, the company would issue the new shares by early April.

The move, announced at the annual shareholders meeting in Phoenix, Ariz., is designed to pay investors the company's first ever regular dividend.

However, shareholders were confused over the options available under the plan.

Shareholders can retain both the common and preferred stock, receiving income just from the latter. Or they can sell either or both the preferred or common stock. The preferred shares would be sold at whatever becomes its market price in over-the-counter trading.

President and chief executive officer Robert Price said the two classes of stock " allow each shareholder to participate in both aspects of the company, or whichever one they want to concentrate on."

Chains Grapple with Tight Labor Market

(Continued from page 5)
problems, though, Shea conceded, when employees learn they earn less than do similar associates who work at a Clover store just down the road.

Clover has had little success in hiring senior citizens, Shea said. "They have too much money. Once they retire, the want to stay retired.

"We're trying harder to keep the people we can find," Shea said. Last fall, Clover began providing part-timers who work at least 14 hours a week the same benefits, on a pro rata basis, as they do full-time workers.

Those benefits include vacation, holiday and sick day pay, medical insurance (on a co-pay basis), optional life insurance and half of the basic free life insurance that full-time employees receive.

Few part-timers take the medical insurance, because their spouses usually have coverage. Hence, Clover has seen little cost increase from its share of premiums, Shea said. Clover self-insures the free life insurance coverage, which ranges from $1,000 to $3,000, so it hasn't seen any immediate cost increase.

All part-timers take the vacation, holiday and sick pay benefit, Shea said, but the benefit program for part-timers is too new to calculate the annual cost.

Clover also turned to technology to help plug the labor gap and improve productivity, Shea said. Last October, the chain finished equipping all of its 22 stores with labor-saving checkouts that feature not only scanners but also supermarket-style conveyor belts.

At Makro, Cincinnati, the focus for 1989 will be on retaining employees, rather than trying to recruit new ones.

As one way to cut turnover, Makro last fall began giving exit interviews to those who quit, said Peter Nadherny, vp, personnel. Makro, the warehouse membership club subsidiary of K mart, found that outgoing employees were seeking greater flexibility in scheduling.

Consequently, Makro adopted a new policy that permits employees to work fewer hours and days than before. And to institute greater flexibility, Makro bought the scheduling software from Long Beach, Calif.-based Senn-Delaney, and shifted from manual to computerized store scheduling, he said.

In a recruiting wrinkle, McCrory Stores, York, Pa., holds job fairs right in its variety stores to draw new workers from among its customers, said Robert Jewell, senior vp for human services. A personnel rep is on hand to interview interested persons. If their references check out, they can be hired the next day, he said.

The job fairs have proven extremely cost-effective, Jewell said, and employees hired that way stay longer than those who walk in off the street.

At the IMRA conference, L.H. Harvin III, chairman and ceo of Rose's Stores, Henderson, N.C., will address one of three general sessions. He will speak on Retailing of the 90's—Challenges for Operations and Store Personnel.

For more information, call conference manager Debra A. Dohnert, at (212) 354-6600.

Shelf Pricing Catches On at Chains

(Continued from page 5)
Carrefour, the French-owned hypermarket in Philadelphia, and Office Depot, the Boca Raton, Fla.-based office supply megastore chain, are other examples of discounters using shelf pricing.

"The major obstacle to shelf pricing is consumer resistance," said Robert Amster, manager of retail consulting for New York-based Arthur Young, a public accounting firm. "A good descriptive sales receipt is essential to sell it to consumers."

Beyond shelf pricing with paper labels, the next step is electronic shelf pricing (ESP), said Harris Gordon, a retail consultant for Touche Ross International, a Boston-based public accounting firm.

Instead of a paper label, ESP uses an LCD display to show the price, Gordon said. Euromarche is testing in a French hypermarket one of the three systems available on the American market.

Electronic shelf pricing is "pretty expensive, now," said George Hite, vice president, public and consumer affairs for Minneapolis-based Target.

"It's in the future. Once you go from item pricing to shelf pricing, you look for even more efficient ways to go."

Hite declined to disclose any details about the economies of shelf pricing. "I'm confident we're getting a good return on our investment," he said. Shelf pricing means "we operate more efficiently."

Consumers have reacted favorably, Hite said, because they know shelf pricing helps keep the lid on prices.

One problem Hite noted is that customers sometimes move goods away from shelf price areas. In response, Target had to realign some shelf-pricing planograms and in some cases even go back to individual item pricing, he said.

As was the case at Target, shelf pricing was a year-long program for Venture.

Venture began testing shelf pricing in two Illinois stores, Fairview Heights and Oakbrook, in the fall of 1987. It began rolling out what it calls "price removal" in July 1988, starting with its new stores in South Bend and Mishawaka, Ind., and completing the job three months later.

Venture's shelf pricing system is based on a personal computer and a laser printer in each store for printing shelf labels. The chain had to create some 25,000 shelf labels.

"Electronic shelf pricing may be the answer in 1991 for discounters," speculated Arthur Young's Amster.

Ross Stores Plans New Prototype

(Continued from page 6)
dren's apparel, plus cosmetics and fragrances, shoes, accessories and hosiery.

The downscaled stores are a "way to make our stores fit into a demographic area" that could not support a full-scale location," explained Benson.

Overall, Ross plans to open 20 to 25 stores in both 1989 and 1990, which is considerably more than the nine stores the chain opened during 1988.

Although store growth during the past year was slow, the off-pricer was able to steadily increase its sales volume and earnings. While 1987 was a rebuilding period for the chain, after having come off a $41.5 million loss in 1986, the past year has allowed Ross to start moving forward again and gain greater momentum.

Recent third quarter results showed the chain posting sales of $151 million compared with $138 million in the same period a year ago. And even more significant gains were made on net earnings; at $3.57 million, the result was more than double 1987's quarterly figure of $1.39 million. Similarly, for the first nine months, Ross' net income was $9.93 million compared with $1.95 million for the first nine months in 1987.

DSN Honors Tuttle

NEW YORK — Dave Tuttle, area manager, based in DSN's Cleveland bureau, was recognized as the 1989 DSN Salesman of the Year. Among his many achievements, Tuttle leads the staff in new accounts and in supplement sales.

DISCOUNT STORE NEWS

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Vol. 28, No. 3 February 6, 1989

FM

FOOD MERCHANDISING
FOR NON-FOOD RETAILERS

Winter

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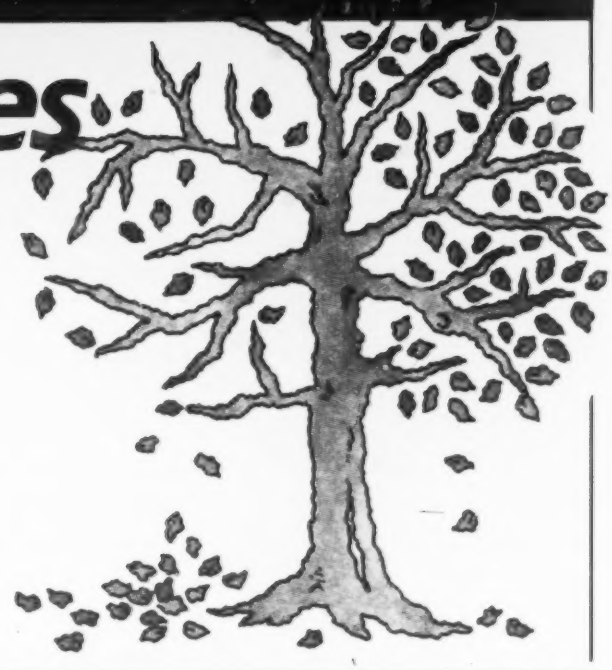
FM Special Report:

Sharp Teamwork Between Manufacturers, Brokers And Nonfood Retailers Shoot Grocery Category Sales Up 14 % To $18 billion

Best Selling Categories of Fall



The chart below lists the best selling categories in food stores for the months of September, October and November.

The rankings are based on a special Sami study tracking seasonality growth trends by category. The categories that made the list had a base index of at least 110 for the three years ending in January, 1988.

Knowing the index makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.

Foods and Groceries: Best Sellers of Fall
(Average three year index ranking)

September		October		November	
Foods	**Index Ranking**	**Foods**	**Index Ranking**	**Foods**	**Index Ranking**
Packaged soft sugar candies	196	Packaged Non-chocolate chewies	207	Canned Cranberries	322
Packaged Non-chocolate chewies	171	Packaged soft sugar candies	203	Baking nuts	309
Fruit Pectin	130	Cider	186	Dates	304
Vinegar/cooking wines	119	Packaged hard sugar candies	150	Cider	251
Canned Meat Spreads	119	Packaged diet candies	145	Packaged chocolate covered fruit	239
Canned sausage/ frankfurters	119	Canned Chili	138	Sterilized milk	221
Packaged hard sugar candies	118	Dates	135	Packaged Novelties	216
Dry Toaster Items	117	Baking Chocolate & Bits	134	Baking Chocolate & Bits	214
Bottled water	117	Tomatoe puree	130	Stuffing mixes	208
Spoonable salad dressings	115	Canned kidney/misc beans	130	Corn syrup	206
Canned Corned beef	113	Canned meat stew	128	Coconut	205
Chocolate candy bars	113	Dry Toaster Items	128	Dry Yeast	205
Canned lunch meat	113	Fruit rolls/bars	126	Canned potatoes	198
Multiple pack gums	113	Bread & Cracker crumbs	125	Pie crust mix	194
Packaged chocolate covered nuts	113	Cereal meal	123	Canned onions	183
Lemon & Lime juices	112	Solid Shortening	122	Canned pie filling	174
Cereal Meal bars	111	Tomatoe paste	122	Packaged hard sugar candies	173
		Tomatoe sauce	121	Brown sugar	172
				Croutons	166
				Packaged chocolate covered nuts	160
Non Foods					
Paper Household bags	144	Rodenticides	163	Heatable Plastic bags & wraps	275
Plastic Storage bags	125	Air Fresheners	120	Disposable containers	194
Laundry soil/stain removers	123	Rug cleaners	119	Fireplace logs & bricks	175
Handle goods	119	Upholstry cleaners	117	Rodenticides	160
Upholstery cleaners	119	Mildew removers	116	Coffee makers	127
Disinfectants	119	Disinfectants	116	Rug cleaners	119
Window cleaners	116	Starches	114	Light bulbs	115
Rug cleaners	115	Furniture Care	112	Dry Cell Batteries	113
All purpose cleaners	114	Laundry soil/stain removers	112	Waxed Paper	110
All fabric bleaches/ detergents	114	Handle goods	111		
		Light Bulbs	110		
		Disposable Containers	110		

Source: Sami Seasonality Study

Grocery Sales Are Up in Nonfood Stores

Sales last year surged 14% to over $18 billion. Buyers say more promotions and manufacturer/broker cooperation are key factors

Nonfood chains say their best selling groceries are commodity items like tuna and coffee.

Grocery product sales in nonfood stores were up an estimated 14% last year, according to Fm's estimates.

An analysis done exclusively for Fm by Malcolm Knapp Inc. shows that grocery product sales to drug, discount and wholesale club stores rose 14% to about $18.3 billion last year.

This year, Fm is projecting that sales will go up at least another 13% to over $20 billion.

Much of the growth is coming from the sales of promotional groceries. Except for Walgreens in the chain drug industry and K mart and Wal-Mart in the discount industry, most of the major drug and discount chains have slowed down their expansion of convenience or dry packaged food departments.

For this past year, most of the drug and discount chains have been concentrating more on their core businesses. The drug chains have been investing more time and energy in their core categories of pharmacy, hba, cosmetics, etc., and the discount chains have been concentrating on building their image and improving their presentations of clothes, appliances, and other gm categories.

"Convenience foods is still an area we're interested in," said a source for one of the major discount chains, "but for the time being we're concentrating on other things. We're using foods primarily as a traffic builder and impulse sales generator."

With the exception of Walgreens, which now has about 550 stores with convenience food departments, most chain drug buyers are also concentrating more on promotional groceries this year.

Their strategy, they say, is to carry the convenience, high consumption items that people either seek out when they're on ad or buy impulsively when they see them displayed at a good price.

Many buyers for drug and discount chains tell Fm that they have promoted groceries much more ag-

Grocery Sales Trends in Membership Warehouse Club Stores
(retail sales millions)

Category segment	1982	1985	1986	1987	1988	1989
Packaged Groceries (excludes snacks)	$122	$1,526	$2,802	$4,203	$5,181	$6,201
Packaged Alcohol	13	174	327	490	603	721
Paper Goods	11	153	288	444	564	675
Soaps/Household cleaners	12	157	296	449	560	670
Pet Foods	6	80	154	239	304	376
Total Sales	164	2,090	3,867	5,825	7,212	8,643

Source: Malcolm Knapp Inc., New York

Features

FM Special Report:

Grocery Sales In Nonfood Stores Were Up 14% in 1988

8

Fm is estimating that nonfood grocery sales topped $18 billion in 1988 and will rise another 13% in 1989 to exceed $20 billion.

1988's Best Selling Promotional Groceries

12

Nonfood buyers say seasonal and convenience groceries as well as household cleaners were their strongest selling grocery items last year

Buyer, Manufacturer, Broker Partnership Fuels Sales Growth

15

Grocery buyers for nonfood chains say manufacturers and brokers are sparking grocery sales by being more flexible and by creating programs that meet nonfood's special needs.

Candy Sales Surged In 1988

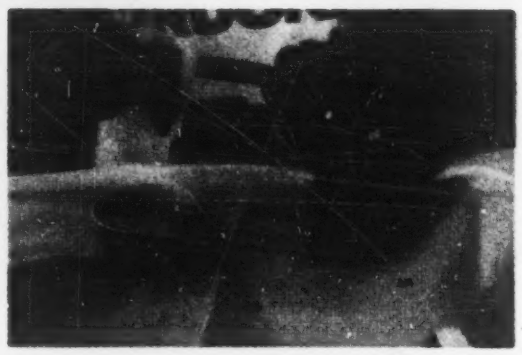
21

Buyers say their chains are promoting the category more and giving it more prominent locations in their stores.

Consumers Respond To Snacks In Nonfood Stores

29

Buyers estimate sales are up between 15% and 25%. Many chains are expanding into cookies, crackers, popcorn, chips and other high consumption snacking items.



Departments

Food For Thought

Drug and discount chains are romancing candy buyers by discounting high margin theatre packs.

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Best selling categories of fall 6

Food Merchandising for Non Food Retailers

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Drug & Discount Chains Find New Way To Romance Candy Buyers.

Elizabeth Parks

Drug and Discount chains have found a new way to offer their customers a super value on candy: by featuring high mark-up king size candy bars, that movie theatres sell at concession booths, at sharply discounted prices.

According to candy brokers, the strategy first surfaced about two years ago when Walgreens and Osco, both drug chains headquartered in Chicago, began promoting the king size bars that most movie theatre concessionaires mark-up 250% to 300%.

Walgreens may have been the first to promote the theatre packs. Sources say their management took the same bars that the movie houses were marking up by 250%, marked them up just 30% to 50% depending on the occasion, and began promoting them at three or four bars for a $1.

Since then, more chains have been buying the theatre packs, and in the last 12 months, the strategy of offering these particular items at especially low price points has become very intense.

"The candy manufacturers have always catered to the concessionaire market," says one buyer. "But now, they're expanding those packs into the retail trade and it gives us an opportunity to promote a very good value at a price point that actually makes us money."

According to candy broker Don Vogel of Vogel Hoffman in Chicago, the idea for promoting theatre packs at retail evolved through "the ingenuity of retailers and sales reps."

Vogler said that drug chains, in particular, were searching for a candy they could promote at an especially good price point. By marking their candies up 250% to 300%, the concessionaires had created a niche or a void that the drug chains knew they could fill.

Walgreens, for example, began promoting the king size bars at multiples of three or four for a $1. The consumer who had just spent $1.29 for that same bar in a movie house immediately recognized the savings.

Oddly enough, the nonfood trade has been able to exploit its opportunity without worrying too much about banging heads with the food chains.

"The food chains are just starting to look at it now," says Vogel. "They've been slower to get into this because food looks at the candy category as basically a profit center. It's something they have to be in, but they don't pay too much attention to it.

"Now the drug and discount stores, on the other hand, use candy as a traffic builder. For them, it's a commodity that can build traffic, and they are constantly trying to change and romance that department."

Some of the romancing can be seen in the way many drug chains merchandise candy in their stores. Walgreens, for example, will often give four to five of its feature tables to in-store candy presentations, and candy controls more end caps in a Walgreens store than any other commodity.

In addition to promoting the theatre packs regularly, Walgreens also carries them at a low everyday retail. Everyday, the theatre packs will sell between 69 cents and 89 cents in Walgreens.

gressively this year than in prior years.

Most say they have a two-fold objective for staging more grocery promotions. They're using them to build traffic, "to attract more shoppers into our stores" and they're using them to generate additional impulse sales.

Both the drug and discount chains are about equally as aggressive with grocery promotions these days, but the discount chains prefer to advertise large sizes, and because they have bigger stores, they also give more feature space and more display space to traditional packaged grocery items like cereals, canned meats and fish, soups, condiments, jams and jellies, etc.

Discount chains also give more space to household cleaners, pet foods and beer, wine and alcoholic beverages.

Snacks are one of the nonfood chain's strongest grocery categories. Most chains are expanding this department.

Grocery Sales Trends In Discount/General Merchandise Stores
(retail sales millions)

Category segment	1982	1985	1986	1987	1988	1989
Packaged Groceries (excludes snacks)	$3,132	$3,461	$3,466	$3,301	$3,342	$3,571
Packaged Alcohol	426	717	825	874	985	1,058
Paper Goods	154	263	294	317	355	427
Soaps/Household cleaners	79	103	110	112	120	128
Pet Foods	52	84	94	97	114	140
Total Grocery Sales	3,843	4,628	4,789	4,701	4,916	5,324

+ Discount stores account for approximately 56% of the above total sales. The rest is generated by department, variety and miscellaneous general merchandise stores.

Source: Malcolm Knapp Inc., New York

Drug stores, on the other hand, give more space to what many buyers call "convenience" groceries, those traditional items that people can use to help prepare "a meal in an instant."

Many buyers say that after years of experimenting with groceries, they are winnowing out the winners from the "dogs."

In all channels of nonfood distribution, drug, discount and warehouse clubs, buyers say they prefer to stock high consumption items like candies, snacks, juices and soft drinks, as well as convenience items like Vienna sausages, olives, cereals, tuna, packaged side dishes like Rice-A-Roni, or canned meals like Chef Boy Ar Dee spaghettis and raviolis, etc.

In the discount industry, K mart and Wal-Mart are still the most aggressive merchandisers of groceries, both everyday and in their ads. Zayre's has cut back on packaged groceries this year, but the chain is still strong on their traditional grocery categories, such as candies, snacks and household cleaners.

Target is also still strong with the candy, snack, beverage and cleaner categories and Venture is continuing to build its base of traditional candy, snack, beverage and cleaner sales as well as to promote packaged groceries and pet foods.

A K mart source says foods are starting to find their "natural niche" in mass merchandise stores. He says they fill a need for drawing customers into a store on a regular basis, plus they can be profitable when they're bought on deal and carried for as long as supplies last.

"When we advertise a food item in our circular," he said, "it's for a seven-day sale, and we'll take a very competitive price to build traffic.

"But we may decide to do two ads on that item. One at the begin-

Grocery Sales Trends In Drug Stores
(retail sales millions)

Category segment	1982	1985	1986	1987	1988	1989
Packaged Groceries (excludes snacks)	$1,244	$1,708	$1,859	$2,019	$2,181	$2,354
Packaged Alcohol	1,186	1,627	1,761	1,915	2,078	2,243
Paper Goods	492	861	981	1,176	1,360	1,524
Soaps/Household cleaners	254	335	362	392	430	467
Pet Foods	32	53	59	67	85	100
Total Grocery Sales	3,208	4,584	5,022	5,568	6,134	6,688

Source: Malcolm Knapp Inc., New York

Buyers describe groceries as an "opportunistic" category, drawing more customers into the stores & capturing sales.

Grocery Sales Trends In NonFood Stores
(retail sales millions for drug, discount & warehouse clubs)

	1982	1985	1986	1987	1988	1989
Total Grocery Sales	$7,215	$11,302	$13,678	$16,074	$18,262	$20,655
% change	6%	n.a.	21%	18%	14%	13%

Source: Malcolm Knapp Inc., New York

ning of the deal period when we're looking to build traffic, and then an ad at the end of the period, when we want to sell through whatever quantity we have left.

"In between, we take a slightly higher mark-up and even though, we still offer a very good price, we can make a good profit for the period between the two ads."

In the chain drug industry, retailers like Peter Agostino at Eckerd, Jim Muir at Dunaway, Andy Horn at Harco, Clarance Archer at Dot and Paul Desjardins at Welby, all report their sales of promotional groceries are growing, usually at double digit rates and on some items, like a Gatorade, which has had what buyers and brokers call "a phenomenal year," up 50% or better.

"There is strong growth in grocery," says Agostino, the senior buyer of convenience foods for Eckerd Drug, "but it's there for the right items. You can't just put in anything."

"Our promotional grocery sales are growing," says Clarance Archer, VP of Wal-Mart's Dot Drug chain, "but that's because we're carrying the things that people use everyday: cereals, peanut butter, juices, canned meats, tomatoe sauces, spaghetti's, applesauce. These are all good convenience items that bring people back in."

"We're buying more promotional groceries," says Jim Muir at Dunaway in Georgia, "but it's also because I feel more confident about the category. I'm able to weed out the slow movers and I know what works for us."

"Groceries are doing real well for us," says Andy Horn at Harco. "We buy on deal as much as possible, and we try to get high consumption items: peanut butter, bar b q sauce, ketsup, things like that."

"We cut back on our convenience assortment," says Paul Desjardins at Welby in Maine, "but we did it to improve turns. Our sales are still going up because we're promoting groceries more and we've cut out all the dead items."

As far as most buyers are able to say right now, the future for groceries in nonfood stores is still quite bright.

As Andy Horn puts it: "Food will have to be more important to the nonfood chain. As the grocery, drug and discount chains start to look more and more alike, we're all going to be trying to draw traffic from each other. The grocery chains moved first by putting in pharmacy and hba to draw traffic from us. Now it's just natural for us to put in groceries to try to draw traffic from them."

"Having these products in our stores tends to enhance our convenience image with our customers," says Peter Agostino at Eckerd. "And we find we don't have to have a large assortment. If we carry the right brands in the right categories, we do well, and our stores benefit from the added traffic."

Grocery's Share of Discount Store Sales

Segment	1977		1982	
	All stores	Stores with grocery products	All stores	Stores with grocery products
Packaged Groceries	3.4%	4.2%	2.6%	3.7%
Packaged Alcohol	0.2%	2.1%	0.4%	2.2%

Data on paper goods, soaps/household cleaners and pet foods is not available.
Source: Malcolm Knapp Inc. & Census of Retail Trade 1977 and 1982 Merchandise Line Sales

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K mart Opens American Fare

Features Upscale Apparel Brands, Low Prices

By Donald Longo

STONE MOUNTAIN, Ga. — At a time when monotony rules much of retailing, K mart has launched a new hypermarket unlike any other store in the United States.

American Fare, opened here late last month, features a trendy casual apparel mix with labels that would be the envy of the most upscale discounter.

The hypermarket, which expects to generate more than $100 million in annual sales, also features custom-designed fixturing in apparel and some hard lines departments. These high-tech-look black fixtures are on locking wheels for easy maneuverability.

"We can reconfigure a department overnight," said Dan Lafferty, general manager, operations and personnel.

Angelo Bruno (left), chairman of Bruno's, and Joseph Antonini, K mart's chairman, president and ceo: The innovative Southeastern grocer and the giant discounter teamed up to create an exciting shopping experience. (DSN photo)

See photos, floor plan, marketbaskets — 13-23

Despite the upscale apparel, the new store is very sharply priced on hard lines goods. On a wide range of products, from cookware and microwave ovens to automotives and sporting goods, American Fare had lower prices than the nearby K mart or Wal-Mart discount stores on identical items.

Distinguishing characteristics include:

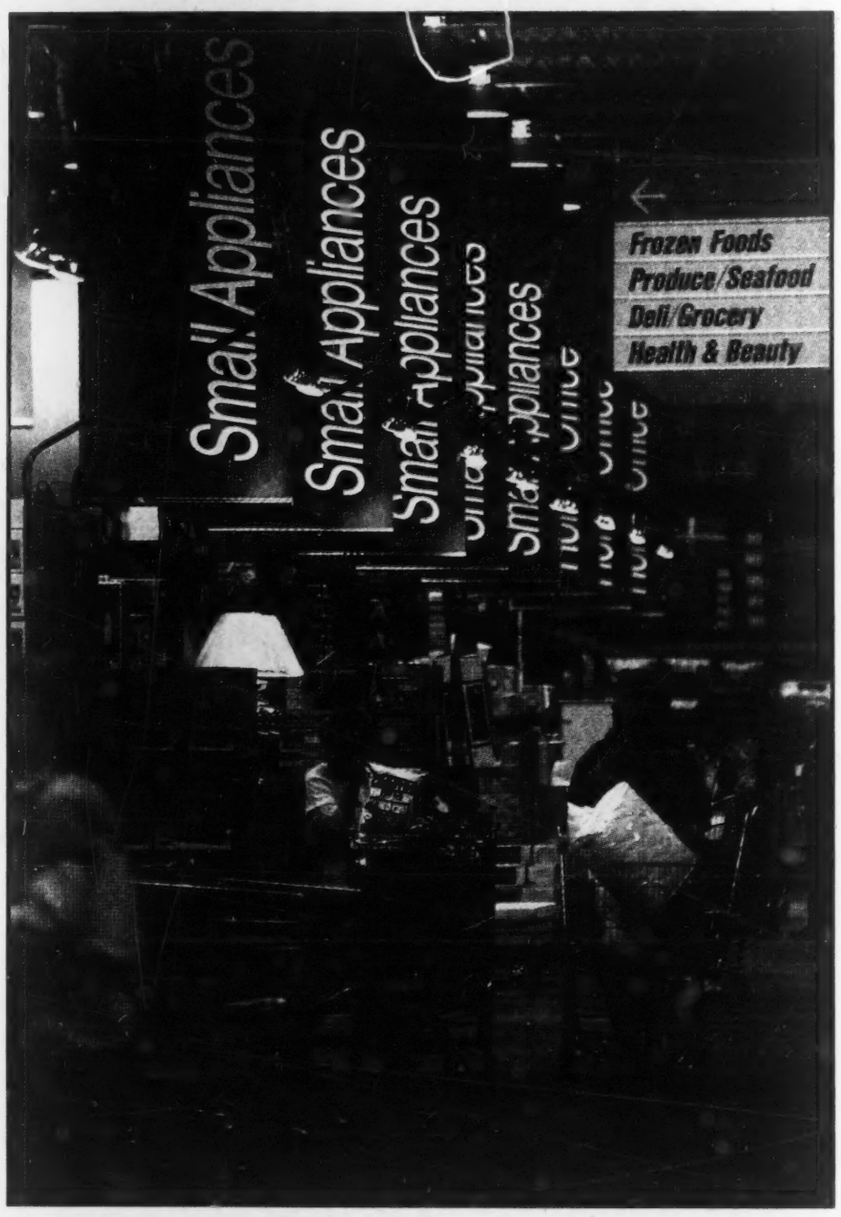
- Emphasis on fulfilling the shopping needs of "New Collar" consumers. These consumers have sophisticated taste, but limited budgets and time *for shopping*;
- Extensive spotlighting throughout the store, especially in apparel. There are more than 600 spotlights in the children's area alone;
- Unique children's sizing walls. One each in the boys' and girls' departments allows a child to stand next to a silhouette which is color-coded to tags on merchandise that fit that particular silhouette size.

Similarly, foot sizing imprints are located on the floor of the children's shoe department;

- Diaper changing stations in both women's and men's rest rooms, further evidence of the store's responsiveness to changing consumer lifestyles;
- Special American Fare hosiery fixtures that organize hose by size, not brand. The department does not use any vendor displays;
- An undulating spiral banner that visually links the toys and children's wear departments.

After a week of practice runs, the 244,000-square-foot hypermarket complex officially opened here, 18 miles east of Atlanta, on Jan. 29. The opening day turnout easily fulfilled company forecasts that between 70,000 and 100,000 shop-

(Continued on page 13)



A mall without walls: American Fare's 25-foot-wide main aisle uses small appliances and housewares as a segue to the hypermarket's frozen food, fresh produce and specialty food departments. (DSN photo)

Ames Scraps Zayre Name Except on Inner-City Units

By Richard C. Halverson

ROCKY HILL, Conn. — As widely anticipated, Ames is scrapping the Zayre name—almost.

Ames will take down the Zayre sign on all but 54 Zayres and begin converting the stores to Ames by November 1. The Zayre logo will remain on 54 stores that serve inner-city customers in Chicago, Washington, D.C., Baltimore and Miami.

Changing the Zayre stores' decor to Ames' red and white color scheme, however, will await a seven-year remodeling program. Ames plans to remodel 75 of its 318 Zayre stores this year and the rest at a rate of 40 per year.

Separately, Ames last month closed the remaining 78 tire and lube centers in the Zayre stores. At the end of last year, Ames closed 17 of the limited auto service centers when it shut 74 of the original 392 stores it bought from Zayre Corp. last October.

Ames president and chief executive officer Peter Hollis said through a spokeswoman that Ames plans to develop special merchandising and advertising programs for the 54 inner-city stores that will retain the Zayre name.

(Continued on page 86)

Wal-Mart Tackles Chicago Market

Plans 8 Discount Stores and 2 Sam's, Some in Strip Centers

By Arthur Markowitz

BENTONVILLE, Ark. — Wal-Mart is poised to expand its thrust into the greater Chicago area, the nation's third-largest market, with both discount stores and Sam's Wholesale Club units.

Wal-Mart's move into Chicago, which involves at least eight discount stores and two Sam's, follows the company's historical pattern of opening units on the fringes of a market and then steadily closing in on the core.

The two Sam's, at 125,000 square feet, will be new prototypes for the membership warehouse chain that will include serviced departments.

Some of the Wal-Marts will go into "power centers," a new type of strip center in which discount stores and specialty discounters, rather than conventional department stores, are the anchors. These centers, which are springing up in Chicago and other markets, are the latest attempt by real estate and shopping center developers to come up with a strip center format that can successfully compete with enclosed regional malls anchored by department stores.

(Continued on page 86)

Ads Build Less Traffic, More Sales

Promotional activity by discounters declined last year. But, more shoppers going to a discount store with a sale item in mind made a purchase, and the amount of the purchase was higher. The third annual *DSN* Traffic Builders Survey (pages 31 to 66) examines the effect of retailers' sale and promotion efforts on consumer shopping patterns.

Profiling Sears, K mart, Wal-Mart Customers page 72

POS Implementation: A Fresh Look at Perplexing Problems page 27

NHMA

Retailers Gather At Housewares Show page 28

MARKETWATCH

Wal-Mart: 'Just Say No'

BENTONVILLE, Ark. — Wal-Mart and the Wal-Mart Foundation have earmarked over $100,000 to launch a companywide program supporting the "Just Say No" Clubs, an anti-drug movement that is targeted at 7- to 14-year-olds. Wal-Mart will use ad circulars, posters, brochures, shopping bag imprints and other promotions to support "Just Say No," and to encourage stores to hold fundraising events for local clubs. It plans to donate $10,000 to the "Just Say No" organization, whose honorary chairwoman is Nancy Reagan.

K mart Backs Young Inventors

TROY, Mich. — K mart and Eastman Kodak are sponsors of "Invent America!," an educational program that will send five children to the national Invent America! competition in Washington, D.C., in July. Invent America!, a project of the U.S. Patent Model Foundation, is an invention competition for elementary school students. It annually awards cash prizes and sponsors a national competition, with the winning projects exhibited at the Smithsonian Institution's National Museum of American History.

Goddu Takes Post at Toys 'R' Us

ROCHELLE PARK, N.J. — Roger Goddu has resigned as Target's senior vice president, general merchandise manager, and joined Toys "R" Us as executive vp, gmm. He will succeed Howard Moore, who plans to retire at the end of the year.

Jewelcor CEO Meets With Bush

WASHINGTON — Jewelcor's Inc.'s chief executive officer Seymour Holtzman was among a group of six businessmen that meet with President George Bush, Vice President Dan Quayle and other government officials to discuss economic issues facing the new administration. The talks covered the creation of jobs, interest rates, economic growth and exports.

HSN, GTE Square Off June 5

ST. PETERSBURG, Fla. — The Pinellas County Circuit Court has set June 5 as the trial date for Home Shopping Network's 18-month-old suit against GTE and two of its subsidiaries. HSN alleged that GTE provided the teleshopper with defective communication equipment and services and then engaged in a scheme to cover up these deficiencies. GTE has filed a countersuit against HSN and its two top executives, claiming the teleshopper's suit was an attempt to cover up HSN's poor financial performance. Prior to setting the trial date, the court rejected HSN's claim for $1 billion in punitive damages against GTE.

Reagan Shops Discounters Too

VAN NUYS, Calif. — Add former President Reagan to the list of celebrities like Tammy Bakker, Bess Meyerson and Kitty Dukakis shopping discount stores. A *New York Post* report noted that electronics equipment, including a TV, a VCR and audio items, were seen being loaded onto a truck headed for the Reagans' California home. The goods came from Adray's, a local four-unit discounter.

EDI Added to SCAN-TECH 89

PITTSBURGH — The Automatic Identification Manufacturers has expanded its SCAN-TECH 89 seminar and trade show to include for the first time companies that only supply electronic data interchange software and services. Previously, EDI technology was exhibited only through firms that also provided automatic identification equipment. SCAN-TECH 89 will be held Oct. 17 to 19 at the San Jose Convention Center in San Jose, Calif.

Office Depot to Open 27 Units

BOCA RATON, Fla. — Office Depot has raised $20.4 million through the sale of 1.2 million shares at $18.25 a share. About $18 million from the stock offering, plus $9 million from working capital and bank credit lines, will be used to open 27 new stores to almost double the size of the 28-unit office supply warehouse chain.

Consultants Swap Services

NEW YORK — Ernst & Whinney and MAS Marketing, Inc. will provide complementary consulting services to each other's clients. Ernst & Whinney will make its retailing consulting service available to MAS Marketing clients, while MAS will provide its market research services to Ernst & Whinney clients. Chicago-based MAS has market research expertise in the apparel and soft lines area, while Ernst & Whinney, located in New York, is one of the largest international accounting and consulting firms.

Prototype for Kmart's Pay Less NW Plays Up Three Key Service Areas

By Pamela Krein

CAMERON PARK, Calif. — K mart's Pay Less NW subsidiary recently unveiled a new prototype here that attempts to create a stronger drug store identity for the Wilsonville, Ore.-based chain.

By playing up three key service areas—cosmetics, pharmacy/over-the-counter products and photo/camera—the 271-store drug chain is now better positioned for the '90s, said executive vice president Timothy McAlear.

After nine months of planning, the new prototype was tested and refined at one of the chain's former Value Giant stores in Oregon. Since Pay Less operates autonomously from K mart, McAlear said the discounter was not involved in the prototype development.

The result of the drug chain's efforts is a 31,000-square-foot store that is radically different from Pay Less' old format.

"There is absolutely nothing the same from the past," McAlear noted.

While more drug store-oriented categories are enhanced, apparel, automotive, hardware and glassware have been cut back. Store layout is also vastly different, with a modified racetrack used, plus graduated gondola heights. Even though the store is rectangular in shape, the layout gives it a triangular appearance.

Overall, the prototype has modern touches like track lighting, brightly colored accents and trims, slate wall fixtures and lifestyle graphics.

Shoppers in the new Cameron Park, Calif., store take advantage of Pay Less' expanded cosmetics department. (DSN photo)

McAlear said he expects the Cameron Park store to reach between $6 million and $8 million in sales volume during its first year.

Pay Less plans to open another 29 stores throughout its Western territory this year. In addition, the chain would like to start remodeling some of its existing stores. However, McAlear said no timetable has been set for the remodeling schedule.

K mart Signs On Backup To Its Main Satellite Hub

TROY, Mich. — K mart has taken out an "insurance policy" for its $40 million satellite telecommunication network.

GTE Spacenet, which supplied K mart's hub earth station at the discounter's headquarters here, has provided a backup disaster recovery service at the telecommunication firm's hub station in Chicago.

The hub earth station is the heart of the satellite telecommunication network. Its antenna and computer equipment send and receive audio, visual and computer data via the GSTAR 2 satellite from the K mart stores currently connected to the satellite network. About 780 K mart's have satellite dishes and the network should be operating in all stores by the end of 1990.

K mart's disaster recovery data center in Livonia, Mich., has been wired to the GTE Spacenet-owned hub. That facility will provide telecommunication services to K mart in the event a catastrophe renders the discounter's hub or main data processing center in Troy inoperative.

GTE Spacenet has dedicated a portion of its Chicago hub's SAC (satellite access controller) transmission capacity as a backup to customers that have contracted for this service, said Dick Pavley, manager of network marketing and new products.

K mart pays a small "insurance" fee for the standby service and a higher fee for any actual use of the backup hub. K mart and GTE Spacenet wouldn't disclose the cost of the backup service.

Should a disaster strike the

(Continued on page 85)

DPP Study: Magazines Can Boost Profits

NEW YORK — Magazines produce almost twice as much direct product profit (DPP) per square foot for discounters than the average for their stores.

Moreover, discounters could enhance profits by allocating more space to selling magazines in high-traffic, high-impulse areas.

Those are the conclusions of Touche Ross in the first of several DPP studies that various manufacturers have commissioned.

Touche Ross conducted the magazine DPP study for the Magazine

(Cont'd on page 85)

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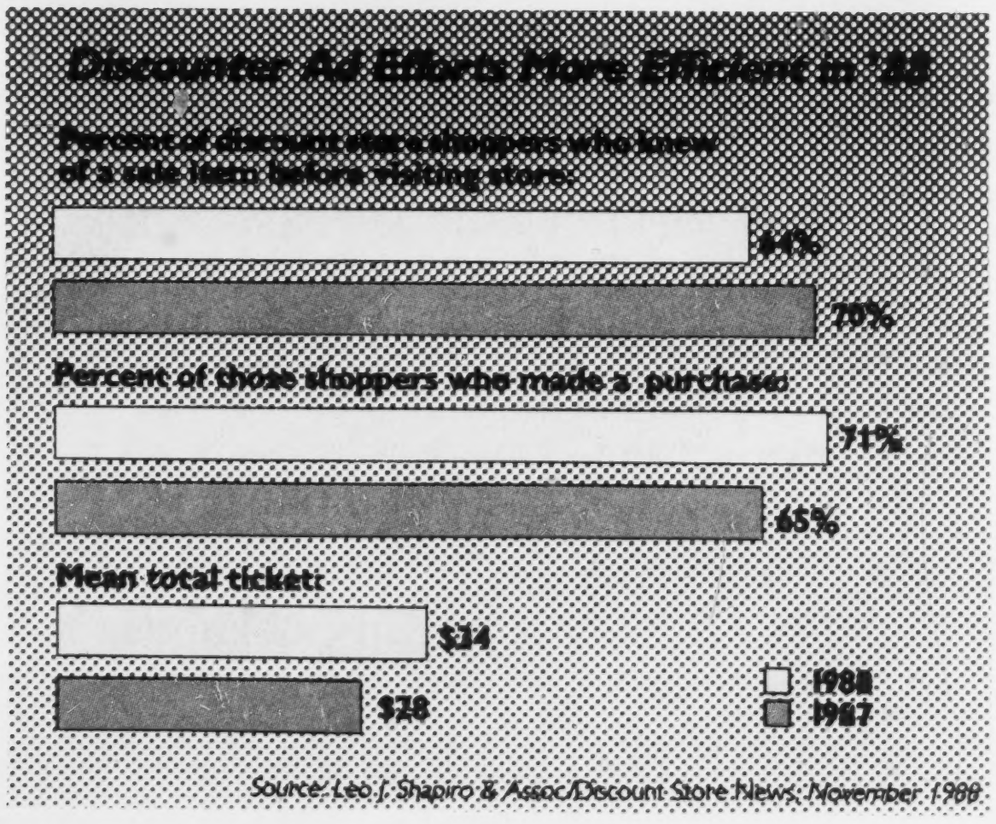
TRAFFIC BUILDERS

APPAREL/HOME PRODUCTS/HARD LINES

Ads Draw Fewer Shoppers— But More Buyers



Although promotional activity by discounters declined last year, discounters' advertising was more efficient than a year ago. More shoppers going to a discount department store with a sale item in mind made a purchase last year, and the size of the purchase was higher.

The third annual *DSN* Traffic Builders Survey (pages 31 to 66) examines various consumer shopping patterns.

Among them:

- Consumer store preference for particular items;
- The effect of a retailer's promotional efforts on consumer shopping patterns;
- The top traffic building products in apparel, home products and hard lines;
- How age, income and gender affect buying decisions.

TRAFFIC BUILDERS SURVEY

Mass Retailers Retaliate with Promos

By Laura Liebeck

Although many discounters have cut back their ad frequency in the last year, they are reaping higher gains from those ads than ever before.

Discount store shoppers were slightly less aware of special promotions than they were in the previous year. However, they said they are more apt to make a purchase when shopping and likely to spend more money on each trip to the store, according to results of an exclusive study commissioned by *DSN*.

The report, the third annual Traffic Builders Survey, was conducted by Leo J. Shapiro & Associates, the Chicago-based consumer research firm, for *DSN*.

The current study suggests that the strength and product diversity of the discount industry, coupled with flat apparel sales, have encouraged other retailers, particularly mass merchandisers and department store operators, to accelerate their advertising activity and cut prices to recover lost market share.

This promotional pressure has been felt by discounters, who have retaliated by instituting a number of adjustments to their business procedures. Among the numerous changes undertaken by some discounters in the last year are reduced advertising schedules, sharper prices and improved in-stock ratios to counter the increased competition and squeeze out profits.

Sales Affect Fewer Shoppers

Compared to the previous year, fewer discount store shoppers were aware of sales before visiting the store. Rather than indicating that promotions have been fewer or less effective, this could mean that consumers are shopping discount stores more often and are drawn to the outlets' everyday low prices and broad merchandise selection.

For these regular shoppers, special sales are less important and, perhaps, less noticed, than the popular everyday low prices.

Meanwhile, mass merchandisers and department store operators are concentrating more heavily than ever on apparel and soft home products such as bedding and housewares, and are advertising in these categories vigorously.

Although these are important categories for discounters, they constitute only a part of the merchandise selection available at discount stores. Discounters are apparently reaping the benefits of their broad merchandise mix, which contains a large percentage of hard lines products, many that are not even offered by some of the other types of retailers surveyed.

The broad merchandise offerings and sharp pricing appear to be leading to more destination shopping of discount stores by shoppers, regardless of promotions. But they also appear to be more aware of ongoing promotions at other retail outlets.

More than six of 10 discount store shoppers reported being aware of a sale before visiting a store, down from seven of 10 the year before. However, seven out of 10 respondents said they made a purchase, spending a mean of $34 on each trip. In 1987, somewhat fewer customers reported making a purchase when in the store and spent only a mean of $28.

Customers of mass merchandisers—Sears, JCPenney and Montgomery Ward—department stores and specialty outlets reported being more aware of sales last year than they were in 1987. Customers of these outlets spent less money on their purchases last year than in previous surveys. This suggests increased promotional activity by these retailers who also have cut margins in order to compete more effectively.

Nearly six out of 10 customers of mass merchandisers said they were aware of a sale before visiting a store, up from less than four of 10 the year before.

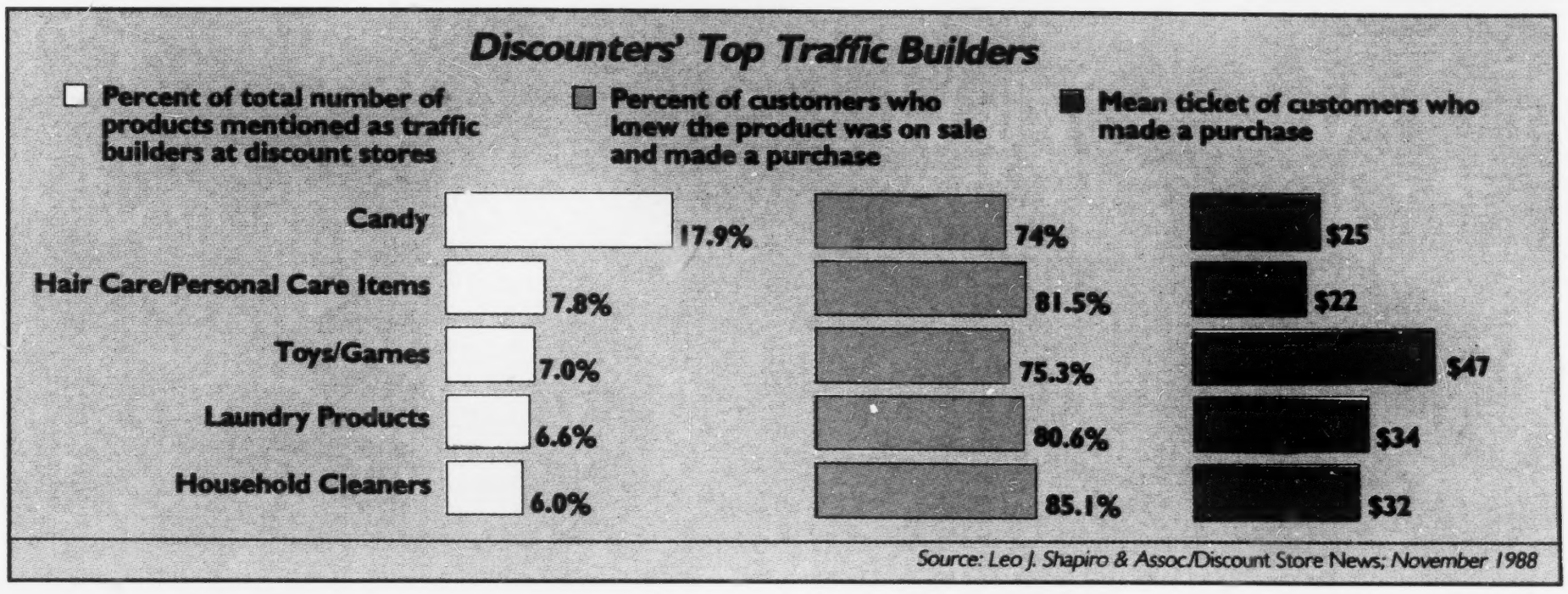
In a comparison between specific discount stores and mass merchandisers, Venture customers were the most aware of a sale before visiting a store, 85.2 percent.

Zayre shoppers were the least aware of sales, 37.6 percent, down substantially from the 66 percent rate recorded in the year-earlier survey. In fact, in the 1987 Traffic Builders report, Zayre shoppers were more aware of sales than those that shop at all other outlets surveyed except Venture shoppers.

Target shoppers were also less aware of sales in 1988 than they were in 1987, according to survey results.

JCPenney shoppers posted the most dramatic gain in terms of awareness of sales promotions.

(Continued on page 37)


Discounters' Top Traffic Builders
Percent of total number of products mentioned as traffic builders at discount stores
Percent of customers who knew the product was on sale and made a purchase
Mean ticket of customers who made a purchase
Candy 17.9% 74% $25
Hair Care/Personal Care Items 7.8% 81.5% $22
Toys/Games 7.0% 75.3% $47
Laundry Products 6.6% 80.6% $34
Household Cleaners 6.0% 85.1% $32
Source: Leo J. Shapiro & Assoc/Discount Store News; November 1988

Discounters' Top Traffic Builders*

Candy and hair care/personal care items draw the most traffic at discount stores.

Percent of total number of products mentioned by shoppers as traffic builders at discount stores:	
Candy (3)	17.9%
Hair Care/Personal Care Items (6)	7.8
Toys/Games (14)	7.0
Laundry Products (7)	6.6
Household Cleaners (1)	6.0
Household Paper Products (2)	5.9
Women's Lingerie/Sleepwear (5)	5.1
Halloween Costumes and Decor (—)	3.6
Other Food/Candy (e.g., peanuts, gum, beer, cookies) (17)	3.3
Women's Shoes/Boots (12)	3.1
Women's Sweaters (13)	2.9
Women's Blouses/Shirts (14)	2.8
Craft Items (—)	2.8
Women's Accessories (—)	2.7
Home Storage (e.g., mirrors closet organizers) (17)	2.5
Other Automotives (e.g., batteries, brake fluid) (16)	2.2
Motor Oil (11)	2.0
Women's Dress Pants/Slacks (—)	1.9
Sheets, Comforters, Bedspreads (—)	1.7
Small Kitchen Appliances (—)	1.7

*Top 20 of 50 products mentioned, last year's ranking in ( ), new entries indicated by (—).

Products which dropped out of the top 20: plastic kitchen items, women's jogging suits, women's sportswear, other home care (e.g., tool boxes, leaf bags), infants/toddlers' clothing and light bulbs.

Source: Leo J. Shapiro & Assoc/Discount Store News; November 1988

Department Stores' Top Traffic Builders*

Women's apparel items made nearly a clean sweep on the traffic builder list this year with blouses/shirts and domestics tied for the No. 1 spot.

Percent of total number of products mentioned by shoppers as traffic builders at department stores:	
Women's Blouses/Shirts (4)	9.5%
Domestics (—)	9.5
Women's Lingerie/Sleepwear (3)	7.1
Women's Clothing (1)	7.1
Women's Jeans (6)	7.1
Women's Outdoor Coats/Jackets (—)	7.1
Women's Sweaters (1)	4.8
Women's Dress Pants/Slacks (—)	4.8
Women's Accessories (—)	4.8
Women's Jogging Suits (—)	4.8
Women's Dresses (—)	4.8
Men's Dress Pants/Slacks (—)	4.8

*Top 12 of 20 products mentioned; last year's ranking in ( ); new entries indicated by (—).

Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

Mass Merchants' Top Traffic Builders*

Women's blouses/shirts and lingerie/sleepwear are the top traffic builders for mass merchants.

Percent of number of products mentioned by shoppers as traffic builders at mass merchants:	
Women's Blouses/Shirts (7)	12.6%
Women's Lingerie/Sleepwear (3)	11.7
Women's Sweaters (—)	7.4
Women's Shoes/Boots (—)	6.5
Women's Dress Pants/Slacks (7)	6.1
Sheets, Comforters, Bedspreads (2)	4.3
Women's Clothing (1)	3.9
Women's Dresses (—)	3.9
Women's Outdoor Coats/Jackets (—)	3.9
Men's Dress Pants/Slacks (7)	3.9
Men's Shirts (7)	3.9

*Top 11 of 35 products mentioned; last year's ranking in ( ); new entries indicated by (—).

Products which dropped out of top 10: bath towels, men's underwear and motor oil.

Source: Leo J. Shapiro & Assoc/Discount Store News; November 1988

TRAFFIC BUILDERS SURVEY

Mass Retailers Counter Discounters with Promos

(Continued from page 35)

Slightly more than six of 10 JCPenney shoppers said they knew of a sale before visiting the store, up from a little more than a quarter of them the year before. This may be linked to the retailer's merchandise mix, which is now heavily weighted to apparel, soft home products and housewares.

K mart shoppers were less aware of a sale before visiting a K mart store in 1988 than they were in 1987, but JCPenney's, Wal-Mart's, Montgomery Ward's and Sears' customers were more aware of sales.

More than one-third of department store customers said they knew of a sale before going shopping, up from a little more than one-fourth of the respondents the year before. And almost one-third of the specialty store customers said they knew of a sale before making a shopping trip, up from 20 percent in 1987.

Discount specialty store customers and drug store shoppers were less aware of sales last year than they were the year before.

Among those surveyed, drug store shoppers were the least aware of promotions. Fewer than three in 10 shoppers said they were aware of a sale, compared to more than six in 10 the year before. But drug store shoppers also recorded the highest purchasing rate of any outlet. Ninety percent of all drug store shoppers make a purchase when visiting such a store, but spend only a mean of $13 per visit, down $5 from the year before.

Whether customers were more or less aware of sales at the stores they frequently or infrequently shop, the current findings revealed differences in their purchasing decisions as compared with the previous year's polling results.

Household cleaners and paper products were unseated as the two top traffic builders at discount stores, replaced by candy and hair care/personal care items.

Candy Top Traffic Builder

Candy, normally a big traffic builder for discounters—ranking fourth in 1987—soared to No. 1 by a huge margin over second place hair care. This was probably due to the survey's timing. The polling was done Oct. 20 to 23, 1988, just prior to Halloween.

During the first two years of the survey, Leo J. Shapiro & Associates surveyed consumers two weeks earlier, in early October, than they did for the current survey.

In addition, Halloween costumes and decor, unranked in the previous survey by consumers as a traffic builder at discount stores, placed seventh on the top 20 chart in 1988, an unlikely addition at other times of the year.

The current survey of the top 20 traffic builders at discount stores—with 21 items listed because sheets, comforters and bedspreads tied small kitchen appliances for the 20th position—contained 10 hard lines-oriented products, four in the home products category and six from apparel. This compares to 12 for hard lines in the previous year's survey, one in home products and seven in apparel.

The results clearly indicate that relatively inexpensive hard lines products such as food stuffs, household cleaners and automotive accessories, continue to draw customers to discount stores. Based on the strength of many of the responses, discounters appear to be drawing mass merchandiser and department store devotees who at one time shopped those locations for many hard lines goods.

In fact, hard lines products captured the top six positions on the traffic builders list: candy, hair care/personal care items, toys/games, laundry products, household cleaners and household paper products. The products producing the largest increases in their standing were candy and toys and games.

The same pattern exists for

(Continued on page 38)

Dependence on Promotional Advertising

The promotion orientation of discount department stores stayed high this year even with a slight decline. Mass merchandisers, department stores and discount specialty stores accelerated their promotional activity.

Percent of shoppers who knew of a sale item before visiting store:

Type of Retailer*	1988	1987
Discount Department Stores	63.7%	70.3%
Mass Merchandisers	56.2	36.9
Department Stores	34.8	28.2
Specialty Stores	31.5	20.7
Discount Specialty Stores	28.6	32.1
Drug Stores	28.6	62.3

*Sample of catalog showrooms, discount specialty stores and department stores was relatively small in comparison to samples of consumers at discount department stores and mass merchandisers.

Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

Discounters' Top Traffic Builder Brands*

Tide, Fisher-Price and General Electric led the list of top traffic builder brands pushing Rubbermaid, last year's first place finisher, to fourth.

Percent of total number of brands mentioned by shoppers as traffic builders at discount stores:

Tide (6)	8.9%
Fisher-Price (—)	6.0
General Electric (2)	5.4
Rubbermaid (1)	3.3
Black & Decker (—)	3.0
M&M (—)	3.0
Gitano (—)	2.7
Snickers (—)	2.7
Quaker State (4)	2.7
Reynold's (—)	2.7
Crest (—)	2.7
Act II (—)	2.7

*Top 12 of 50 brands mentioned, which accounted for 48 percent of all brands mentioned; last year's ranking in ( ); new entries indicated by (—).

Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

Individual Retailers' Use Of Promotional Advertising

Venture and K mart again topped the list in promotion dependence this year, and Zayre, last year's No. 3 finisher, dropped to last place.

Percent of shoppers who knew of a sale item before visiting store:

Retailer	Retailer Type	1988	1987
Venture	DDS	85.2%	88.7%
K mart	DDS	68.0	70.9
JCPenney	MM	61.1	26.1
Wal-Mart	DDS	60.9	41.7
Montgomery Ward	MM	57.5	45.4
Sears	MM	42.7	27.9
Target	DDS	38.0	52.7
Zayre	DDS	37.6	66.0

Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

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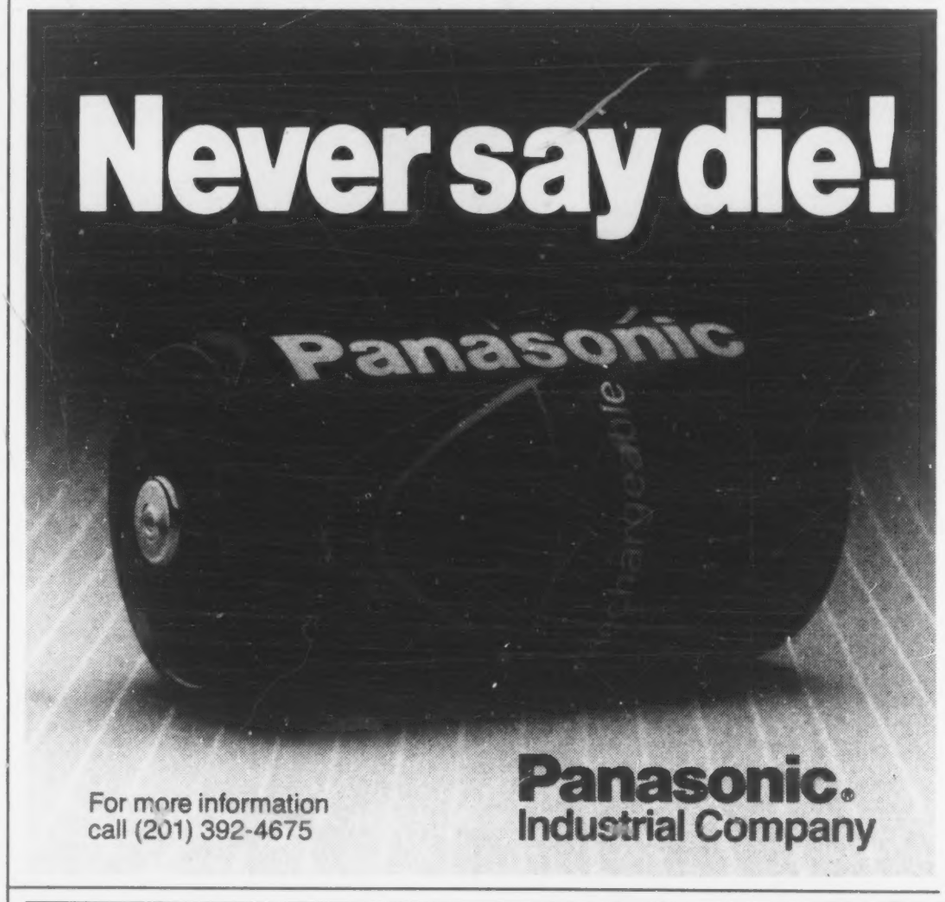

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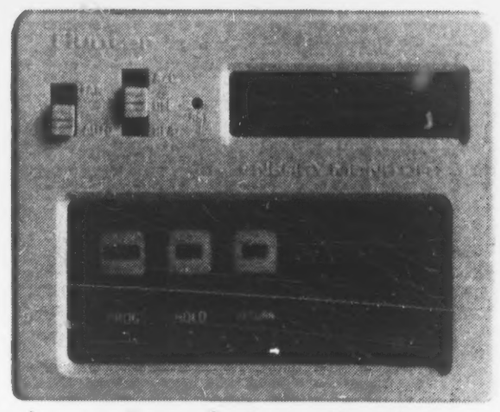

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TRAFFIC BUILDERS SURVEY

The increased use of everyday low price strategies, as at Wal-Mart's Hypermart USA, Topeka, Kan., resulted in less consumer awareness of special sales in 1988. (DSN photo)

Discounters Force Mass Retailers To Retaliate with More Promotions

(Continued from page 37)

home products, the only one of the three broad merchandise categories to place more items on the current traffic builder list than it did the year before. The new home products items on the chart in the 1988 survey were craft items (No. 13), sheets, comforters and bedspreads (No. 20) and small kitchen appliances (No. 20).

The six apparel products to make the list in the 1988 survey were reshuffled a bit from the previous year's lineup. Women's lingerie, No. 5 on the top 20 list in 1987, fell to seventh place but was the highest ranking apparel traffic builder listed by consumers who shop discount stores.

But even with the small drop, women's lingerie received greater support from consumers as did women's shoes/boots (No. 11), women's sweaters, (No. 12), and women's blouses/shirts (No. 13).

Women's jogging suits, women's sportswear and infants/toddlers' clothing fell off the 1988 traffic builders list, and were replaced by women's dress pants/slacks and women's accessories.

Discounters Gain in Apparel

Although discounters made inroads in the apparel area, despite the loss of one entry in the top 20, mass merchandisers and department stores are still regarded as the primary, and perhaps preferred, outlets for apparel items.

Apparel is, for these two retailers, their calling cards to consumers, especially women's clothing.

Except for one item, the top 10 products consumers list as traffic builders at mass merchants, for example, were apparel. Of that, only two items, men's dress pants/slacks and men's shirts, were not women's apparel items. No children's apparel items made the top 10 traffic builders list at mass merchandisers.

It was the same story at department stores. The top 10 traffic builders included only one non-apparel item, domestics, and one apparel item that was not for women, men's dress pants/slacks. No children's apparel items appeared on this top 10 list either.

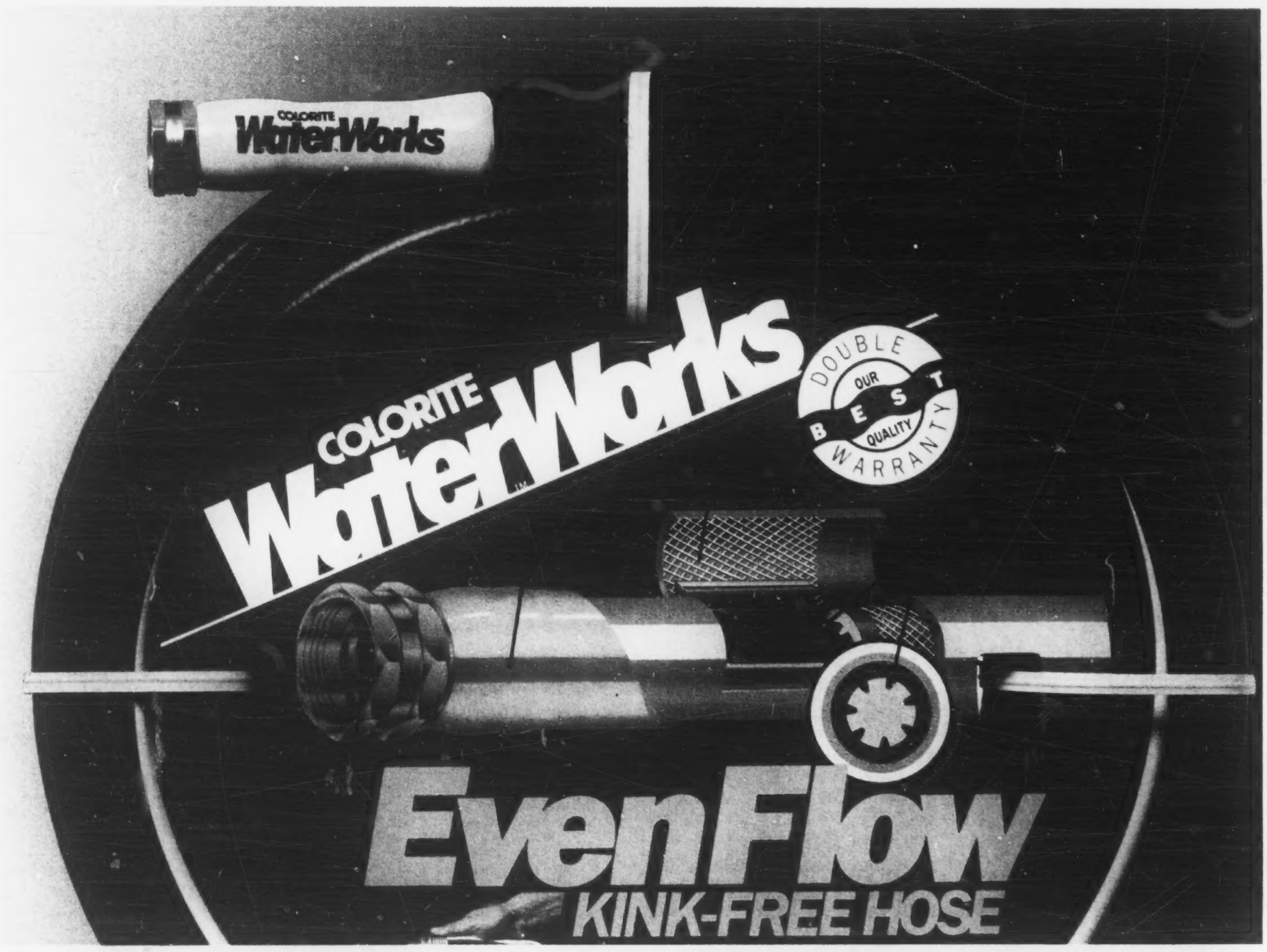
For both mass merchandisers and department store operators, their virtually complete dependence on higher-priced, fashion-oriented goods has jeopardized their economic health, as evidenced by their anemic sales growth. Discounters have also suffered from what many have called a lack of fashion direction. But this is changing.

Survey Cites Gitano

One apparel label, Gitano, made the list of top traffic building brands at discount stores during 1988. This was considerably better than the previous year's report—when apparel sales were suffering from a lack of direction—and no apparel labels appeared on the chart.

The only other brands to make the top 10 traffic builders list again this year were: Tide, which rose from sixth in 1987's survey to No. 1 in 1988; Rubbermaid, which dropped from first on the 1987 survey to fourth in 1988; General Electric, dropping a notch to third from second the year before; and Quaker State, which was tied for seventh in the current survey, down from fourth the year before.

The other top traffic builder brands on the current survey included Fisher-Price, Black & Decker, M&M, Snickers, Reynold's, and Crest, all hard lines labels.



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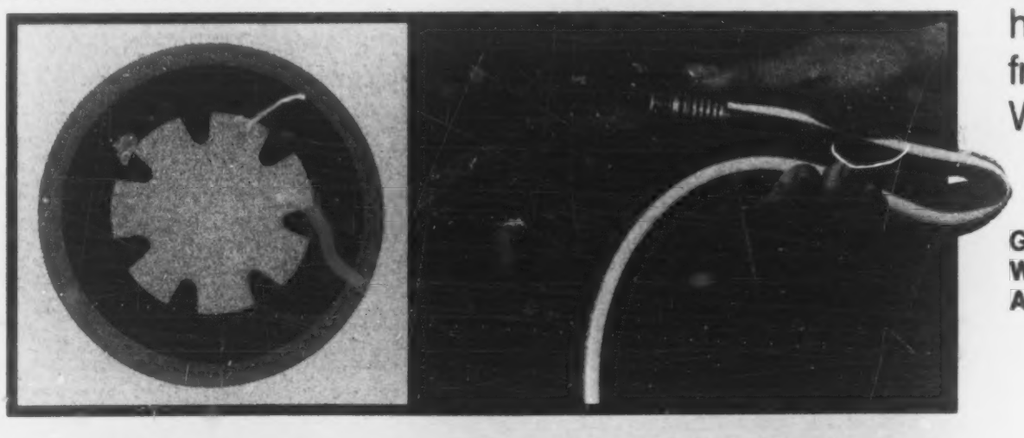

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TRAFFIC BUILDERS SURVEY

Promos Give Discounters Edge in Sales

Discounters are profiting more than other retailers from their merchandise presentations and advertising schedules, both in terms of customer activity and sales receipts.

According to the third annual Traffic Builders Survey conducted for *DSN* by Leo J. Shapiro & Associates, Chicago, 71.1 percent of discount store shoppers make a purchase when shopping at discount stores, spending a mean of $34 on each trip. This is up from the previous year, when 65.2 percent of shoppers purchased goods and spent a mean of $28.

While the mean ticket is lower than other retailing formats except drug stores, discounters have the highest customer purchase rate of any retailer type surveyed. Apparently, when shoppers visit a discount store, they make a purchase.

Survey results indicate that customers are drawn to a discount store for its broad selection of lower-cost, name brand merchandise. This environment draws customers to the store, providing fertile ground for add-on sales and repeat business.

Apparently, the discount store philosophy of lower everyday prices encourages customers to make multiple purchases while in the stores. And it also appears to make them frequent shoppers.

Survey statistics indicate that discounters are particularly successful at attracting buyers to their selections of lower-cost consumable items.

In addition, discounters seem to be very successful at enticing their customers to purchase more than they planned to buy.

For example, among the many products sold at discount stores, candy, the top traffic builder for discounters, produced a mean sale ticket of $25, far above the cost of a single candy bar or even a one-pound bag of miniature candy bars. Paint, generally available for under $12.99 for a one-gallon can, generated a mean ticket price of $52. Obviously, consumers are buying much more than one can of paint.

In contrast, women's blouses—the No. 1 item on both the department store and mass merchandiser top traffic builder list—produced a mean ticket of $47. Women's lingerie, also a big item for these retailers, carried a mean ticket of $27. Both ticket prices are fairly close to actual sales tags for these items and contain much less add-on sales potential for those retailers.

When it comes to purchasing high-priced merchandise such as TV's, microwave ovens and fine jewelry, customers appear to seek out sales and keep their reserve cash.

According to survey results, the 66.7 percent of shoppers who knew microwave ovens were on sale before shopping the store spent a mean of $211 to 66.7 percent on the shopping excursion. Automobile tires were purchased by half the consumers who knew they were on sale, spending a mean of $105.

Apparently, the lower-cost items primarily found at discount stores carry higher customer purchase rates than higher-priced merchandise and have greater potential for additional sales.

The only retail outlet to outdo discounters in attracting additional purchases is drug stores. Survey results revealed that nine out of 10 drug store customers make a purchase when visiting one of those stores, but spend only $13 on each trip, down from $18 a year ago.

Department store operators are able to entice their customers to spend more money in their stores, $58, than any other retail group surveyed, but the merchandise bought is more costly and they make purchases only 58.2 percent of the time.

Getting customers to make a purchase is slightly more difficult for mass merchandisers. Shoppers of these outlets appear at the cash register 55.4 percent of the time, half a percent less than a year ago. And when shopping at a mass merchant, customers spend just $41, down $6 from last year's survey.

Compared with the other retailers, discount specialty store shoppers have the hardest time eliciting purchases from their customers, 55.8 percent. But that figure represents a two-tenths of one percentage point gain from last year. When shopping at these stores, customers spend a mean $36, up $1 from 1987.

Among individual chains, Target shoppers spend more money on each shopping trip than four of the nation's other top discounters, Venture, K mart, Zayre and Wal-Mart.

Target customers spent a mean of $52 on merchandise in a single trip to the store, according to survey results, $8 more than its nearest competitor, Venture, and $21 more than in the 1987 survey. But Venture shoppers purchased goods more frequently than Target customers after seeing a promotion.

In terms of attracting more customers to purchase items on sale, K mart made the biggest strides.

The nation's No. 1 discounter posted almost a 12 percentage point gain in this area. According to survey results, seven out of 10 K mart shoppers who knew of a sale made a purchase, up from less than six out of 10 a year ago. The

(Continued on page 42)

Total Ticket Generated By Traffic Builders at Discount Stores

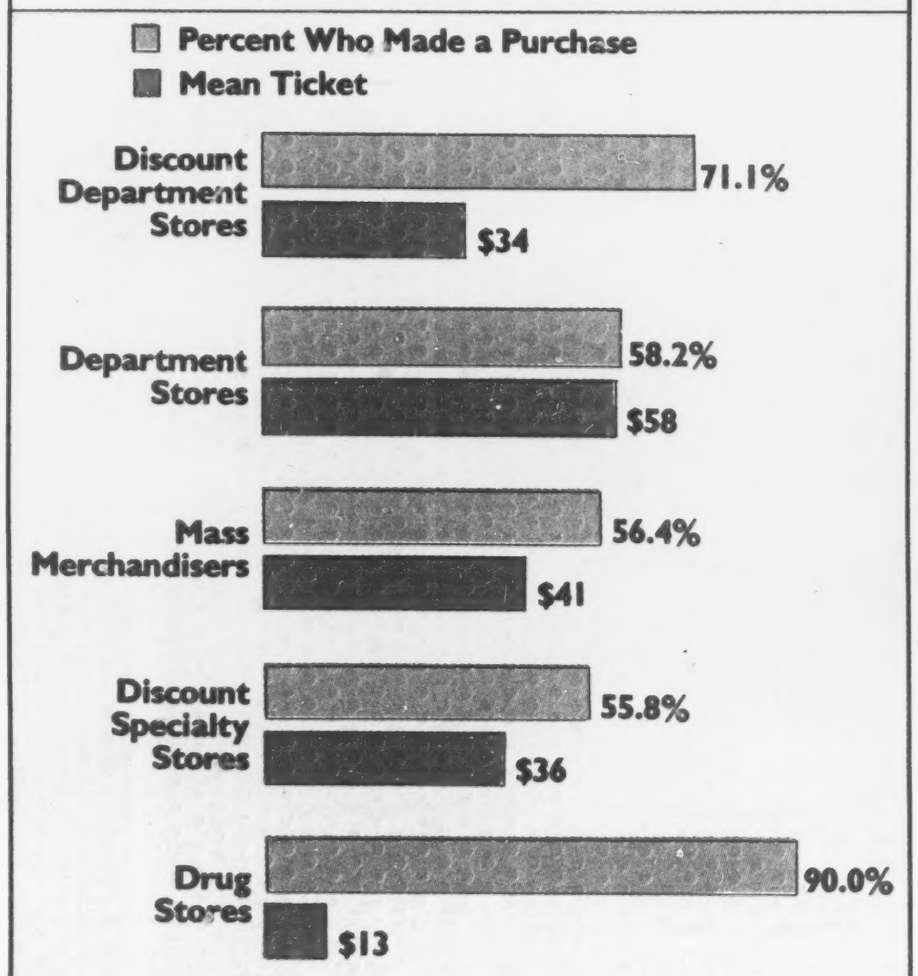
Venture and Target shoppers were most likely to make a purchase, and spend more doing so than almost any other chain.

Store Shopped by Shoppers Who Knew a Product Was On Sale	Percent Who Made a Purchase	Mean Ticket
Target	77.2%	$52
Venture	82.1	44
K mart	69.4	30
Zayre	70.7	28
Wal-Mart	65.1	28

Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

Tickets Retailers Garner From Their Traffic Builders

As a group, discount store shoppers are most likely to make a purchase, but their mean ticket is lower than all other retailers except drug stores.



Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

Tickets Generated by Traffic Builders

Product That Shopper Knew Was On Sale	Percent Who Made a Purchase	Mean Ticket
Low Cost Items		
Home Storage (e.g., mirrors, closet organizers)	77.4%	$ 41
Laundry Products	80.6	34
Household Cleaners	85.1	32
Motor Oil	81.8	30
Household Paper Products	81.3	30
Other Automotives (e.g., batteries, brake fluid)	75.9	27
Candy	74.0	25
Other Food/Candy (e.g., peanuts, gum, beer, cookies)	80.0	25
Hair Care/Personal Care Items	81.5	22
Cosmetics	66.7	22
Middle Cost Items		
Stuffed Animals	66.7%	$ 75
Small Kitchen Appliances	86.4	62
Cookware	89.5	58
Paint	75.0	52
Men's Shirts	57.1	51
Toys/Games	75.3	47
Women's Blouses/Shirts	66.2	47
Men's Shoes/Boots	61.1	45
Men's Dress Pants/Slacks	52.9	44
Infants/Toddlers' Clothing	50.0	42
Highest Cost Items		
Microwave Ovens	66.7%	$211
Televisions	50.0	174
Fine Jewelry	66.7	130
Vacuum Cleaners	60.0	127
Tires	50.0	105
Bicycles	75.0	100
Women's Skirts	75.0	91
Upholstered Furniture	66.7	76
Other Electronics (e.g., video tapes, keyboard)	60.0	70
Hard Furniture	70.0	65

Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

TRAFFIC BUILDERS SURVEY

Promos Give Discounters Edge over Other Retailers

(Continued from page 41)
mean ticket also edged up, to $30, from $26 a year ago.

While more Wal-Mart shoppers who knew of a sale reported making purchases this year, they spent less money in the stores, down $3 to $28.

Target didn't fare too well with this measurement. Only 24.6 percent of infrequent shoppers reported visiting a Target store with a sale item in mind last year, a drop of nearly 10 percentage points from the previous survey.

JCPenney had the greatest number of infrequent shoppers in the store when a sale was going on, followed by Sears and Montgomery Ward.

Discounters were separated from mass merchants by nearly 40 points in this measurement, suggesting a customer base that is both more loyal and more inclined to shop frequently, but one that is not as easily swayed by special promotions.

Being able to attract customers to their stores for sales is a double-edged sword for mass merchandisers such as Sears. It's good because they know their ads are reaching the right consumers, but bad news since it shows that these same customers only shop the stores when there is a sale and not when merchandise is at regular prices.

But mass merchandisers' ability to draw crowds to special sales is growing, thus increasing their ability to make frequent and loyal shoppers out of infrequent, sales-oriented shoppers. This could be potentially bad news for discounters if too many of their customers are lured elsewhere too often.

Nearly eight out of 10 JCPenney's shoppers said they knew of a sale item before shopping the store, up nearly 30 points from last year.

Sears, the nation's No. 1 retailer, charted a nearly 20 percentage point gain in this area. And Montgomery Ward, the 1987 survey leader in attracting infrequent customers to its stores, fell to third among the top three mass merchandisers, but still posted a five point gain over the year-earlier results.

Among discounters, Venture attracted the greatest number of infrequent shoppers with its advertisements.

Wal-Mart, which finished second among discounters in attracting infrequent shoppers on the year-ago survey, fell to third last year and lost its grip on the infrequent shopper pool.

Wal-Mart attracted only 28.4 percent of infrequent shoppers with its ads last year, down from 40 percent. This probably isn't that bad a statistic for Wal-Mart considering the company maintains a strict everyday low price strategy that limits promotional advertising, andcustomer loyalty among Wal-Mart shoppers is fairly high.

Of all the customers surveyed, retail ads were most effective in drawing new and infrequent shoppers to purchase such products as apparel, home and personal items.

In measuring the effectiveness of promotions in attracting new and infrequent shoppers, nine of the top 20 products were hard lines items, three were home products and eight were apparel items. A year ago, 10 were hard lines-oriented goods, two were home products and eight were apparel.

Retailers are most effective in attracting shoppers for hard lines products such as candy, laundry products, household paper products, automotive supplies and toys.

Attracting New and Infrequent Customers*

Mass merchandisers are more successful at using promotions to attract infrequent shoppers.

Percent of infrequent shoppers who knew of a sale item before shopping store:

Retailer	Type of Retailer	1988	1987
JCPenney	MM	77.5%	48.4%
Sears	MM	77.3	58.3
Montgomery Ward	MM	74.0	69.7
Venture	DDS	36.8	41.4
K mart	DDS	32.4	22.3
Wal-Mart	DDS	28.4	40.0
Target	DDS	24.6	35.4
Zayre	DDS	23.2	30.9

*Customers who shopped a store less than twice a month

Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

Effectiveness of Product Promotions In Attracting New and Infrequent Customers

Apparel, home and personal items were most effective in drawing shoppers.

All Who Knew of a Sale Item and Were Coming to Shop For:	Customers Who Shop at This Store Often*	Not Often
Candy	70.5%	29.5%
Hair Care/Personal Care Items	59.8	40.2
Women's Lingerie/Sleepwear	55.2	44.8
Toys/Games	59.3	40.7
Laundry Products	79.2	20.8
Household Cleaners	62.7	37.3
Women's Blouses/Shirts	53.8	46.2
Household Paper Products	71.9	28.1
Women's Sweaters	43.1	56.9
Women's Shoes/Boots	51.7	48.3
Women's Dress Pants/Slacks	48.8	51.2
Women's Accessories	68.3	31.7
Halloween Costume and Decor	63.4	36.6
Other Food/Candy (e.g., peanuts, gum, cookies)	62.5	37.5
Craft Items	81.8	18.2
Home Storage (e.g., mirrors, closet organizers)	48.4	51.6
Sheets, Comforters, Bedspreads	40.0	60.0
Other Automotives (e.g. batteries, brake fluid)	37.9	62.1
Women's Clothing	40.7	59.3
Women's Jeans	54.5	45.5

*Defined as shopping twice a month or more

Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

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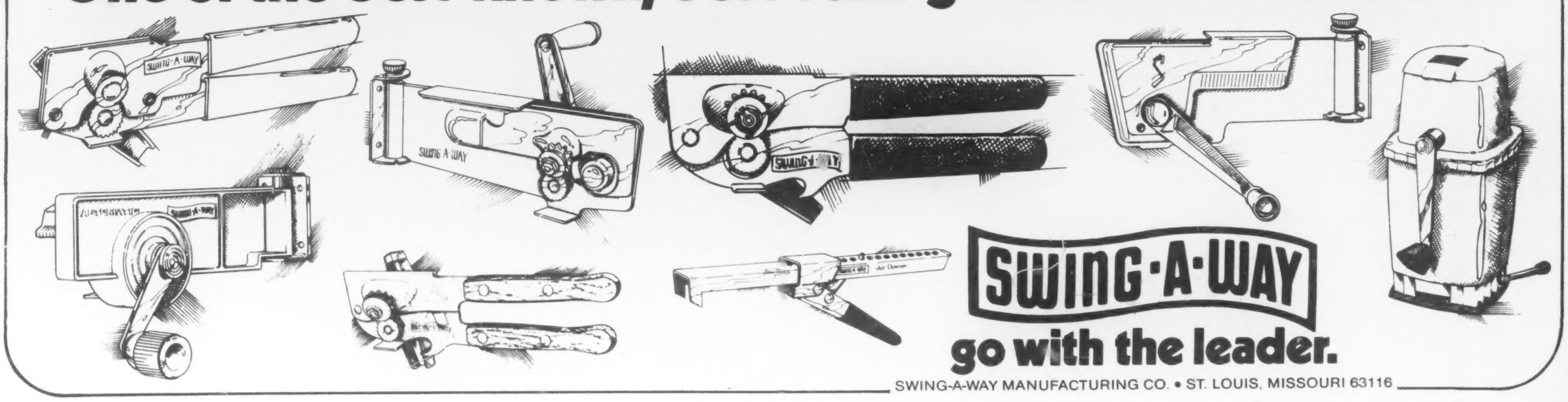

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TRAFFIC BUILDERS SURVEY

Price Consciousness Now Knows No Age Barriers

As expected, women are slightly more sales-conscious than men, and senior shoppers are more mindful of sales than younger shoppers.

But consumers of all ages, male and female, young and old, are increasingly aware of sales and promotions before choosing when and where to go shopping, according to results of the third annual Traffic Builders Survey, conducted for *DSN* by Leo J. Shapiro & Associates, the Chicago-based consumer research firm.

Rising prices, an uncertain economy and intense competition among retailers have produced a coupon-clipping, circular-carrying consumer.

But unlike years past, this customer is no longer the picture of the middle-class housewife.

Increasingly, today's shopper is just as likely to be a 36-year-old middle-management male with a family, a retired grandfather or a just-graduated college student.

These three shoppers, like the rest of the consuming public, are looking to stretch their limited disposable income as far as it will go.

In fact, men aged 35 to 45 constitute the most sales conscious shopper of all age and gender groups. Almost six out of 10 men in this age group reported being aware of a sale before entering a store.

For women, the most aware group were shoppers in the 25 to 34 age bracket, with more than half the respondents saying that they were aware of sales and specials.

Rising prices, an uncertain economy and intense competition among retailers have produced a coupon-clipping, circular-carrying consumer.

In 1987, the most aware shopper was female, aged 55 to 64 years. Over 60 percent of women shoppers in that age group were aware of a sale. In the recent study, only 50 percent of women in that age group were aware of a sale.

Perhaps some of the reasons more middle-aged men are aware of sales are related to higher rates of divorce, single parenthood and maintaining a single lifestyle until later in life.

In addition, statistics could be indicating that both spouses are sharing more equally in family chores, including household record-keeping and purchases, and that men are scanning the ad circulars much more frequently than ever before.

What last year's survey seems to indicate is that age and gender may no longer be sufficient data to predict a customer's awareness of sales and purchasing inclinations. Much more information may be needed to draw conclusions about consumer shopping behavior.

Generally, consumers become more sales-conscious as they get older. It also appears that even the youngest of adult consumers, people under 25, are becoming more informed shoppers.

The gap in ad awareness between the youngest and oldest shoppers is narrowing, too.

Limited Earnings

For example, consumers in the 25 to 34 age bracket are only slightly less aware of sales than the oldest consumers, those aged 65 and over. This is probably due to the younger consumers' limited earnings and pressures from raising a family.

Consumers in the 55 to 64 age bracket were only slightly more aware of special sales than the youngest adult shoppers, those under 25 years of age. This is probably due to the earnings stability of the older middle-age consumer who has raised a family, paid off the mortgage and now enjoys a measure of financial security unavailable in younger years.

The youngest age group and those aged 55 to 64 years topped the list of consumers who were the most unaware of special sales or promotions.

Women under 25 comprised the female shopper most unaware of a special sale, while women 25 to 34 and 45 to 54 were the most aware of store sales and specials.

Among women, shoppers in the 25 to 34 age bracket and those aged 45 to 54 were just about equal in their awareness of special sales, with almost 55 percent of each group responding affirmatively.

Among men, males under 25 constituted the most unaware shoppers of any age group followed by men in the 45 to 54 age bracket, the prime earning years.

Fewer than four in 10 males under 25 reported being aware of a sale.

Men aged 45 to 54 were just slightly less aware of sales than the male under-25 group with just over 40 percent responding that they were aware of the sale. It's possible to infer that this is because they tend to have enough disposable income to purchase at full price, rather than that they don't have the money to make a purchase.

Men in this age group charted the biggest sale awareness decline between the two surveys, dropping 13 percentage points.

Men aged 25 to 34 were also much less aware of sales now than they were a year ago when almost six out of 10 men reported were aware of sales. In this survey, a little more than four in 10 said they were aware of a sale before shopping.

Compared to the previous year's study, among all consumers as a group, those under 25 and those aged 25 to 34 became more aware of sales and specials. The same was true for women in those two age brackets and women 65 and over. Men, however, were only more aware of sales if they were under 25 or 35 to 44 years old.

Busier Lifestyles

Among all shoppers, consumers 35 to over 65 reported being less aware of sales and specials in last year's survey. Consumers 55 to 64 reported almost a 10 percentage point decline, giving credence to today's busier lifestyles.

Women from 35 to 64 were also less aware of sales, according to the current survey. This group of women probably includes increasing numbers of full-time workers who have less time to read advertisements and more money to make a purchase.

The largest decline of awareness among women shoppers was in the 55 to 64 age group, falling more than 10 percentage points, from more than six in 10 reporting being aware of a sale in the previous survey to just five in 10 last year.

Shopper Profile

Women are slightly more sale-conscious than are women and older people tend to be more aware of sales than younger shoppers.

Age	Percent of All Shoppers Who Knew of Sale/Special		Percent of Women Shoppers Who Knew of Sale/Special		[illegible]	
	1988	1987	1988	1987	1988	1987
Under 25	43.7%	33.9%	46.4%	35.6%	36.0%	29.9%
25-34	52.5	45.6	54.9	46.9	44.8	58.6
35-44	50.1	52.7	48.7	53.4	56.5	50.2
45-54	51.1	56.3	54.6	58.7	37.5	50.5
55-64	48.4	57.9	50.3	61.5	42.9	47.2
65 and Over	53.3	53.8	52.9	52.6	54.8	58.9

Source: Leo J. Shapiro & Assoc/Discount Store News: November 1988

TRAFFIC BUILDERS

APPAREL

WOMEN'S/MEN'S/CHILDREN'S/HOSIERY/JEWELRY & ACCESSORIES/UNDERWEAR/INTIMATE APPAREL

Sharper Prices Give Edge to Apparel

Four-color advertising layouts featuring the latest fashions at the sharpest prices continue to help discounters move apparel from merely a stocked item to more of a traffic builder.

A recently concluded consumer research study revealed that of the top 20 traffic building products at discount stores, six were apparel. Two of these items made the top 10, indicating that shoppers look to discounters to satisfy their apparel needs. This is particularly true in women's apparel and, to a growing extent, in children's clothing.

Although the apparel rankings pretty much mirror those of the year-earlier survey, the results confirm the stability of the category for discounters. The improved rate of mention for the items on the list point to the importance of the merchandise.

Much of the credit for this can be linked to increased ad schedules and promotional pricing, which keeps apparel in the forefront of a consumer's mind.

The ads also appear to be having a substantial impact on the growing numbers of frequent discount store shoppers (defined as customers who shop a store at least twice a month).

Despite the overall standing of apparel, discounters are still having trouble attracting infrequent shoppers into their stores, according to responses from the 3rd annual Traffic Builders Survey.

The was commissioned by *DSN* and prepared by Leo J. Shapiro & Associates of Chicago, a consumer research firm. It revealed that larger numbers of infrequent shoppers are responding much better than before to apparel ads placed by all retailers, mass merchants and department store operators. However, product sales are still heavily linked to promotional pricing.

Mass merchants and department store operators appear to be suffering more than discounters from a lack of loyalty by regular shoppers and, therefore, are more tied down to frequent sales promotions as a method to draw crowds.

For example, women's lingerie/sleepwear, the top-ranked apparel item on the discount store traffic builders list, was shopped for by almost eight out of 10 frequent shoppers who knew the item was on sale. Two out of 10 reported being infrequent shoppers.

But among all survey respondents, just about six of 10 shoppers identified themselves as frequent shoppers visiting the store because a sale was on. More than four in 10 said they were infrequent shoppers. Last year, seven out of 10 shoppers identified themselves as frequent shoppers when purchasing lingerie on sale and three out of 10 said they were infrequent shoppers.

The six apparel items identified as top traffic builders by discount store shoppers were women's lingerie/sleepwear, seventh, up two places from the 1987 survey, followed by women's shoes and boots, 10th, women's sweaters in 11th, and women's blouses/shirts in 12th place.

Women's accessories, a new addition to the top 20 list, was 14th and women's dress pants and slacks, also new to the list, came in 18th.

Women's jogging suits, women's sportswear and infants/toddlers' apparel fell off the list this year.

Lingerie/sleepwear was also the top-ranked item on the apparel traffic builders list, the same position it held on the 1987 survey. But this year, lingerie, a hot category for discounters, received a greater number of shopper mentions as a top traffic builder. The popular category also got more attention by all shoppers and even by mass merchandiser customers.

(Continued on page 50)

Customer Response to Apparel Traffic Builders

Product Category	Percent of Mentions by Frequent Shoppers at All Stores*	Percent of Shoppers Who Bought a Product They Knew Was On Sale	
Women's Lingerie/ Sleepwear	55.2%	75.9%	$27
Women's Blouses/ Shirts	53.8	66.2	47
Women's Sweaters	43.1	58.6	34
Women's Shoes/Boots	51.7	70.7	36
Women's Dress Pants/ Slacks	48.8	62.8	33
Women's Jeans	54.5	77.3	56
Women's Jogging Suits	57.9	68.4	41
Men's Shoes/Boots	44.4	61.1	45
Women's Sportswear	47.1	64.7	32
Men's Dress Pants/ Slacks	41.2	52.9	44
Infants/Toddlers' Clothing	62.5	50.0	42
Cosmetics	20.0	66.7	22
Men's Shirts	42.9	57.1	51

*Shoppers who shopped store at least twice a month
**Could include other items as well as sale items

*Source: Leo J. Shapiro & Assoc/*Discount Store News; *November 1988*

Traffic Builder Products: Apparel

Product Category	Percent of Total Mentions at All Stores	Discount Stores		Mass Merchandisers			
		Percent of Total Mentions	Percent of Mentions in Category	Percent of Total Mentions	Percent of Mentions in Category		
Women's Lingerie/Sleepwear	6.1%	5.1%	64.4%	11.7%	31.0%	7.1%	3.4%
Women's Blouses/Shirts	4.5	2.8	46.2	12.6	44.6	9.5	6.2
Women's Sweaters	4.0	2.9	55.2	7.4	29.3	4.8	3.4
Women's Shoes/Boots	4.0	3.1	58.6	6.5	25.9	2.4	1.7
Women's Dress/Pants/Slacks	3.0	1.9	48.8	6.1	32.6	4.8	4.7
Women's Accessories	2.9	2.7	70.7	3.5	19.5	4.8	4.9
Women's Clothing	1.9	1.2	48.1	3.9	33.3	7.1	11.1
Women's Jeans	1.5	1.3	63.6	1.3	13.6	7.1	13.6
Women's Jogging Suits	1.3	1.3	73.7	1.3	15.8	4.8	10.5
Other Children's Clothing	1.3	1.0	57.9	2.6	31.6	2.4	5.3
Men's Shoes/Boots	1.3	1.3	77.8	0.9	11.1	—	—
Women's Dresses	1.2	0.5	29.4	3.9	52.9	4.8	11.8
Women's Outdoor Coats/Jackets	1.2	0.4	23.5	3.9	52.9	7.1	17.6
Women's Sportswear	1.2	1.1	70.6	1.7	23.5	—	—
Men's Dress Pants/Slacks	1.2	0.6	35.3	3.9	52.9	4.8	11.8
Infants/Toddlers' Clothing	1.1	1.5	100.0	—	—	—	—
Cosmetics	1.0	0.5	33.3	1.7	26.7	9.5	26.7
Men's Shirts	1.0	0.4	28.6	3.9	64.3	2.4	7.1
Men's Jeans	0.9	0.5	38.5	2.6	46.2	2.4	7.7
Men's Clothing	0.8	0.5	41.7	3.5	66.7	—	—
Costume Jewelry	0.8	0.3	27.3	0.9	18.2	2.4	9.1
Girls' Clothing	0.7	0.5	50.0	2.2	50.0	—	—

*Source: Leo J. Shapiro & Assoc/*Discount Store News; *November 1988*

Women's clothing accounted for 12 of the top 20 items on the apparel traffic builders list. (DSN photo)

Sharp Prices, Four-Color Ads Help Discounters Move Apparel

(Continued from page 49)

Women's clothing accounted for nine of the top 10 apparel items and 12 of the top 20 items on the apparel traffic builders list, about the same results as the previous year.

However, the order of the line-up changed significantly.

For example, women's blouses and shirts moved up one notch to second; women's sweaters bumped up two spots to third; second place women's shoes and boots fell to fourth; and women's dress pants and slacks leaped to fifth from 13th.

New to the top 20 list are women's jeans, other children's clothing, men's shoes/boots, women's dresses, men's dress pants/slacks, cosmetics, men's jeans, men's clothing, costume jewelry and girls' clothing.

Infants/toddlers' clothing, eighth on 1987's survey, down from sixth in 1986, fell to 16th place in 1988. Other children's clothing, not mentioned in the 1987 traffic builders survey, was 10th in 1988.

This kind of movement is reflective of the changing marketplace and growing children's apparel business.

The shift in emphasis has been recognized by a number of discounters, who have been readjusting their merchandise mix to reflect greater supplies of girls' and boys' apparel.

One example of this is Gitano's current purchase agreement for The Children's Place, Sears' opening of its new McKid's children's apparel stores, and the No. 1 retailer's remerchandising of its children's apparel department.

This investment in children's apparel doesn't necessarily reflect a de-emphasis on infants/toddlers' apparel—since a mini baby boom appears obvious—but rather a long-term commitment to children's apparel in general.

Men's fashions also appear to be on the rise for discounters and other operators.

Although no men's apparel items made the list of discounters' top 20 traffic builders or the top 10 in apparel, five men's apparel items made the top 20 apparel list. And two items, men's shoes and boots and men's shirts, were mentioned by shoppers as items they look for on sale.

For example, men's shoes and boots were mentioned by almost half of frequent shoppers and were purchased six out of 10 times when on sale.

When it comes to men's shirts, four of 10 shoppers mentioned them as apparel traffic builders with nearly six of 10 saying they made a purchase when they knew shirts were on sale.

In fact, men's shirts may be the biggest generator of add-on sales in the apparel department, according to the Shapiro study.

Obvious Traffic Builder

With a mean ticket of $51, men's shirts are an obvious traffic builder and generator of add-on sales since a single shirt rarely costs more than $20 at a discount store.

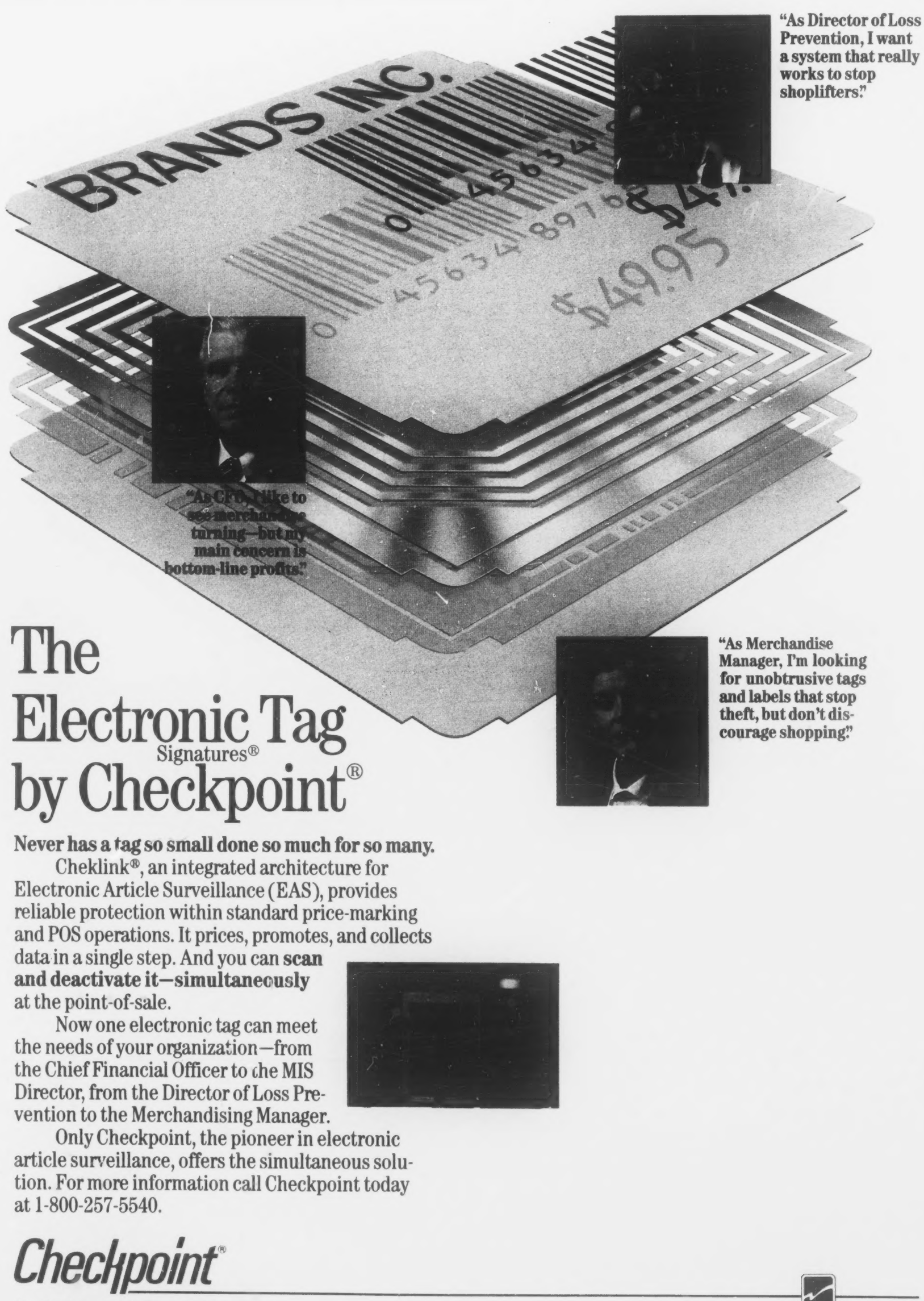
Women's jeans, also a traffic builder, but more often when the item is on sale, produced a mean ticket of $56, almost double the average discount store price of under $30 per pair.

Infants/toddlers' apparel, a big seller at regular price, had a mean ticket of $42, indicating substantial add-on sales.

Even with the highly promotional nature of apparel, discounters are still reaping the benefits of add-on sales once the shopper is in the store.

For example, discount store shoppers spent a mean $34 when shopping, up $6 from a year ago. And of the top ranked traffic builders in the apparel department, only four had average ticket prices below $34. These include: cosmetics ($22), women's lingerie/sleepwear ($27), women's sportswear ($32) and women's dress pants/slacks ($33).

The list of top traffic builders brands included one apparel label, Gitano. Last year, no apparel labels made the list.



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TRAFFIC BUILDERS

HOME PRODUCTS

HOUSEWARES / DOMESTICS / PHOTO / CONSUMER ELECTRONICS / HOME OFFICE / RTA FURNITURE

Ads Lure Home Products Buyers

Exactly how successful retailers are in attracting customers to their selections of home products largely depends on the specific item advertised, according to a recent survey of consumer buying habits.

The third annual Traffic Builders Survey, conducted for *DSN* by Chicago-based consumer research firm, Leo J. Shapiro & Associates, confirmed that home products is a category of merchandise that is stubbornly tied to promotions, particularly in the area of small electric appliances, domestics and craft items.

But with the growing emphasis on coordinated home fashions—including appliances—the pressure on price alone may eventually ease.

In the meantime, the fashion orientation of home products, from domestics to appliances, is being steered along a plane of steadily improving sales and profitability.

Previously No. 9, craft items jumped to top the list of home products traffic builders.

Manufacturers and retailers are working jointly to determine color palettes, designs and period motifs to help drive the business and encourage add-on sales.

For example, through such organizations as the Center for Homewares Design, manufacturers work together to determine the year's color scheme and patterns that can be easily adapted to numerous home-related products, from pot holders to lamp shades and corrugated storage containers to plastic flower pots.

Such efforts have raised the potential for add-on sales at the retail level, as seen by the popularity of mauve, slate blue and the geese theme.

Although many retailers have reported that the increased emphasis on coordinated home fashions has worked fairly well in encouraging consumer sales, particularly of the add-on type, the results of the Traffic Builders Survey don't, at least as yet, bear that out.

The survey results are unclear concerning home products' ability to incite add-on sales. Some seem to create extra sales while others very definitely don't.

Low-cost home products such as mirrors and closet organizers were the most productive of lower-cost items in all merchandise categories, at a mean ticket of $41. In mid-cost products, small kitchen appliances and cookware were the second and third most productive products overall per shopper, with mean tickets of $62 and $58, respectively. Microwave ovens and televisions were the top two ticket generators among high-cost items, with mean tickets of $211 and $174, respectively.

However, in the mid-price range, other home products like sheets, bath towels and fabrics fared very poorly, finishing in the bottom of the ranks. Window coverings, electronic equipment and accessories were relatively poor mean ticket performers among high-cost items.

These are, of course, very broad price categories, and the $174 per TV probably leaves a lot less to spend on other products than does the $70 spent by electronic equipment and accessories shoppers. Similarly, $30 might buy a sheet set or a comforter, but not much more, while the mean $26 spent by bath towel shoppers could account for significant add-on sales.

Further, $41 spent on a small kit of ventilated shelving would leave little left over. But if that same $41 was spent on corrugated or plastic organizers, the add-on purchase potential is much greater.

It therefore is very difficult to generalize about home products and their add-on sales potential. While many retailers have said that coordination within the domestics and housewares departments have created additional sales, there is no clear-cut evidence from the survey that this is so.

The top traffic builder in home products this year was craft items, up from No. 9 among home products on the previous survey.

Craft items are very low-cost goods in discount stores, with a mean price tag of about $15. But $15 buys a lot of craft merchandise and discounters are able to reap the full benefit of the category since mass merchandisers and department store operators ignore the category almost entirely.

Craft products have become so popular in the last few years, a result of more families getting down to basics, that they came in 13th on the top 20 traffic builder list for discounters, making crafts the top-rated home product this year, up from No. 31 overall a year ago.

In all, only four home products made the discounter top 20 traffic builder list, down one item from the 1987 survey. But on the previous survey, household cleaners, laundry products and household paper products were included in the home products section and topped the list. This year they are included in hard lines.

The other top traffic builders on the current survey are: other home storage; sheets, comforters and bedspreads; and small kitchen appliances, all new to the list. Plastic kitchen items, which were fourth in 1987.

Within the home products category, craft items topped the list, followed by other home storage, sheets, comforters and bedspreads, small kitchen appliances, cookware, plastic kitchen items, videotape, window coverings and hard furniture.

All of these products received high mention rates by discount store shoppers as top

(Continued on page 58)

Traffic Builder Products: Home Products

Product Category	Percent of Total Mentions at All Stores	Discount Stores		Mass Merchandisers			
		Percent of Total Mentions	Percent of Mentions in Category	Percent of Total Mentions	Percent of Mentions in Category		
Craft Items	2.3%	2.8%	90.9%	—	—	—	—
Home Storage (e.g. mirrors, closet organizers)	2.2	2.5	87.1	1.3%	9.7%	—	—
Sheets, Comforters, Bedspreads	2.1	1.7	63.3	4.3	33.3	2.4%	3.3%
Small Kitchen Appliances	1.5	1.7	86.4	0.9	9.1	2.4	4.5
Cookware	1.3	1.7	94.7	0.4	5.3	—	—
Plastic Kitchen Items	1.3	1.6	94.4	—	—	—	—
Videotape	1.0	1.3	93.3	—	—	—	—
Window Coverings	0.9	0.9	76.9	1.3	23.1	—	—
Hard Furniture	0.7	0.7	80.0	—	—	—	—

Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

Customer Response to Home Products Traffic Builders

Product Category	Percent of Mentions by Frequent Shoppers at All Stores*	Percent of Shoppers Who Bought a Product They Knew Was On Sale	
Home Storage, (e.g. mirrors, closet organizers)	48.4%	77.4%	$41
Sheets, Comforters, Bedspreads	40.0	63.3	30
Small Kitchen Appliances	54.5	86.4	62
Cookware	89.5	89.5	58
Window Coverings	53.8	53.8	34

*Shoppers who shopped store at least twice a month
**Could include other items as well as sale items

Source: Leo J. Shapiro & Assoc./Discount Store News; November 1988

In mid-cost products, cookware was the third most productive item overall per shopper. (DSN photo)

Advertisements Attract Home Products Buyers

Sheets, comforters and bedspreads are the most competitive of the home products. (DSN photo)

(Continued from page 57)

traffic builders. They were hardly mentioned as traffic builders by mass merchandiser and department store shoppers, leaving the market fairly open for discounters.

But there are several home products categories in which mass merchandisers and department store operators do actively compete. Mass merchants, as always, were very strong in sheets, comforters and bedspreads and window coverings, and to a lesser degree, did well promoting assorted home products like mirrors and closet organizers, small kitchen appliances and plastic kitchen items.

In addition to sheets, comforters and bedspread business, department stores also compete for business in assorted domestics and small kitchen appliances. But according to shopper responses, discounters are shopped more frequently for these items.

The most competitive of the home products, apparently, are sheets, comforters and bedspreads. But they don't appear to generate a lot of add-on sales for any retailer, discounters included. With a mean ticket price of $30, down $4 from the previous survey, consumers appear to be buying pre-packaged sheet sets, an inexpensive comforter or bedspread.

In addition, these domestics items also seem to be highly promotional, drawing crowds and purchasers when the items are on sale.

But perhaps the product with the most sale-conscious buyer is cookware. According to consumer responses, nine out of 10 named cookware as a product they shop for. Nearly as many said they knew the product was on sale at the time of the purchase.

Of the shoppers who said they made a cookware purchase, the mean ticket was $58, a dramatic rise from the $27 reportedly spent in the 1987 survey. The rising ticket probably indicates that cookware sets, and not individual pieces, were sold, a definite change from the survey last year.

Small kitchen appliances carried a slightly higher mean ticket, $62. This can be attributed to one pricey item such as a food processor, several smaller appliances or generous add-on sales.

Sheets, comforters and bedspreads seem to be highly promotional, drawing crowds and purchasers when the items are on sale.

Window coverings is still an enigma. A little over half of shoppers who were attracted to a store by window treatments promotions were frequent shoppers, and about the same percentage who actually purchased window treatments said that they knew of a sale before shopping.

However, despite the move toward more upper-end window coverings, shoppers reported spending just $34 on window coverings, up $5 from a year ago. Customers appear to be tied to the lower-end vinyl blinds and shades and either are buying multiples of these items or spreading their cash around the store.

Other home products that don't appear to be offering retailers much in the way of add-on sales include: microwave ovens, with a mean ticket of $211; TV's, $174, down from $210 on the year-earlier survey; upholstered furniture, $76; other electronics, $70; and hard furniture $70, down $17 from a year ago.

On the top brands list, discount store shoppers mentioned just three home products labels, General Electric, Rubbermaid and Reynold's. The last survey had Rubbermaid and GE as the top two.

In the current survey, Rubbermaid dropped to fourth, in a tie with Black & Decker, which straddles both home products and hard lines. GE finished third, behind Tide and Fisher-Price.

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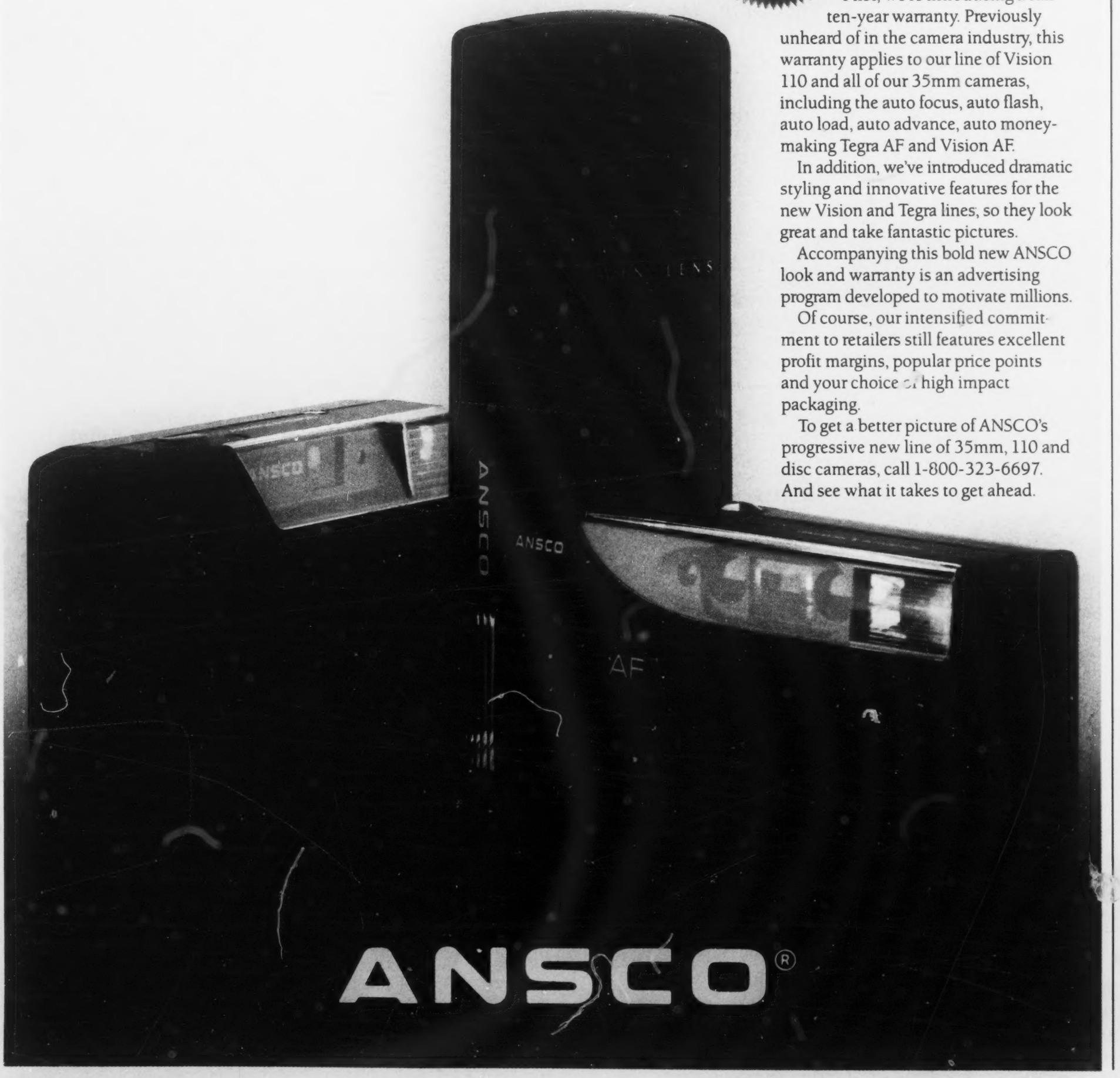


TRAFFIC BUILDERS

HARD LINES

AUTOMOTIVES / HEALTH & BEAUTY AIDS / HARDWARE / TOYS / STATIONERY / SPORTING GOODS / DIY

Fast-Turning Items Draw Customers

Half of the top 20 traffic-building products at discount stores were quick-turning, higher-margin hard lines items, according to the results of the third annual Traffic Builders Survey conducted for *DSN* late last year by Leo J. Shapiro & Associates, the Chicago-based consumer research firm.

Despite the dominance of hard lines in the top 20, the results indicate a two-item decline from 1987. But many of the products on the list, especially the best performers, received consumer mention rates that were substantially higher than they were in the year-earlier survey.

This is especially noteworthy since mass merchandisers and department store operators carry very few traditional hard lines products, particularly the top traffic builders, leaving the field open for discounters.

Also, the mean ticket price attached to numerous hard lines products increased over the last year, indicating that these items produce add-on sales for retailers.

Products such as candy, personal care items, household cleaners and supplies, and automotive accessories constitute some of the fastest moving and profitable traffic-building items in a discount store, the survey showed.

In general, hard lines goods carry with them the potential for substantial add-on sales because of their usually lower price tags. This is not as frequently found in higher-priced products in other categories.

Also, since most of the hard lines products identified in the survey, such as those mentioned above, are not found at mass merchandisers and department stores, discounters have an edge in selling consumers more than they intend to buy when they first enter the store.

But this doesn't always work out, particularly in such departments as home improvement.

Discounters have been paring down their assortments of home improvement/hardware products in response to heated competition from home centers. In addition, many discounters have also trimmed or eliminated automotive service departments in the wake of the growing strength of the automotive specialty chains. Automotive accessories, however, remains a vital department for discounters.

But with streamlined assortments, some hard lines areas have declined in popularity, and the de-emphasis of certain products at a number of discount stores has affected some of the shopping statistics for hard lines.

For example, fewer hard lines shoppers reported being aware of sales, and purchased a number of hard lines products less frequently, according to survey results.

Candy topped the list as the No. 1 hard lines traffic builder last year, outdistancing second place hair care/personal care items, 1987's top finisher, by a substantial margin.

Candy normally does well for discounters, as do other snack foods, but this year confectionary products showed a dramatic gain in the standings. This was probably due to the fact that the polling was conducted just prior to the Halloween holiday, strong evidence that special holidays attract shoppers.

But even with the holiday at hand, survey respondents reported being acutely aware of candy promotions—more than double the mention rate of hair care products. This is somewhat odd since candy is a relatively cheap product and sales amount to only nickels and dimes off regular prices.

Even still, consumers said they spent a mean of $25 on

(Continued on page 64)

Customer Response to Hard Lines Traffic Builders

Product Category	Percent of Mentions by Frequent Shoppers at All Stores*	Percent of Shoppers Who Bought a Product They Knew Was On Sale	
Candy	70.5%	74.0%	$25
Toys/Games	59.3	75.3	47
Laundry Products	79.2	80.6	34
Household Cleaners	62.7	85.1	32
Household Paper Products	71.9	81.3	30
Other Food/Candy (e.g., peanuts, gum, beer, cookies)	62.5	80.0	25
Other Automotives (e.g., batteries, brake fluid)	37.9	75.9	27
Other Home Care (e.g., tool boxes, leaf bags)	65.0	75.0	28
Other Recreation (e.g., wagons/ child's rocking chairs)	64.3	50.0	42

*Shoppers who shopped store at least twice a month
**Could include other items as well as sale items

*Source: Leo J. Shapiro & Assoc./*Discount Store News; *November 1988*

Traffic Builder Products: Hard Lines

Product Category	Percent of Total Mentions at All Stores	Discount Stores		Mass Merchandisers			
		Percent of Total Mentions	Percent of Mentions in Category	Percent of Total Mentions	Percent of Mentions in Category		
Candy	13.9%	17.9%	97.5%	0.9%	1.0%	2.4%	0.5%
Hair Care/Personal Care Items	6.4	7.8	92.4	1.3	3.3	—	—
Toys/Games	5.6	7.0	93.8	0.4	1.2	—	3.4
Laundry Products	5.0	6.6	100.0	—	—	—	—
Household Cleaners	4.7	6.0	97.0	0.4	1.5	—	—
Household Paper Products	4.5	5.9	100.0	—	—	—	—
Halloween Costumes, Decor	2.9	3.6	95.1	0.9	4.9	—	—
Other Food/Candy (e.g., peanuts, gum, beer, cookies)	2.8	3.3	90.0	—	—	—	—
Other Automotives (e.g., batteries, brake fluid)	2.0	2.2	82.8	1.3	10.3	—	—
Motor Oil	1.5	2.0	100.0	—	—	—	—
Over-the-Counter Drugs	1.5	1.7	85.7	—	—	—	—
Other Home Care (e.g., tool boxes, leaf bags)	1.4	1.6	85.0	0.9	10.0	—	—
Diapers	1.3	1.7	100.0	—	—	—	—
Plants	1.2	1.6	100.0	—	—	—	—
Batteries	1.0	1.3	93.3	0.4	6.7	—	—
Other Recreation (e.g., wagons/child's rocking chairs)	1.0	1.2	92.9	—	—	—	—
Other Books/Stationery	0.9	1.0	84.6	0.4	7.7	—	—
Pets/Pet Supplies	0.9	1.1	92.3	—	—	—	—
Light Bulbs	0.8	1.1	100.0	—	—	—	—
Juice	0.7	0.9	100.0	—	—	—	—
Popcorn	0.7	0.9	100.0	—	—	—	—

*Source: Leo J. Shapiro & Assoc./*Discount Store News; *November 1988*

Candy, Personal Care Generate Hefty Add-Ons

Among discount store shoppers, mentions of hair care/personal care items rose to 7.8 percent, from 4.4 percent the year before. This occurred in an arena of increased competition from mass merchandisers, which stepped up efforts in this product category.

(Continued from page 63)

each trip in which they purchased candy, much more than the price of a candy bar, package of gum or one pound bag of assorted candies. Obviously, consumers are buying much more than candy when they go shopping for confectionary products.

This is noteworthy since discount store shoppers reported spending a mean of $34 on each shopping trip, $6 more than they spent in 1987.

Although hair care/personal care items dropped to second place on the current hard lines survey, the category's rate of mentions rose substantially, from 5.2 percent on the 1987 survey to 6.4 percent.

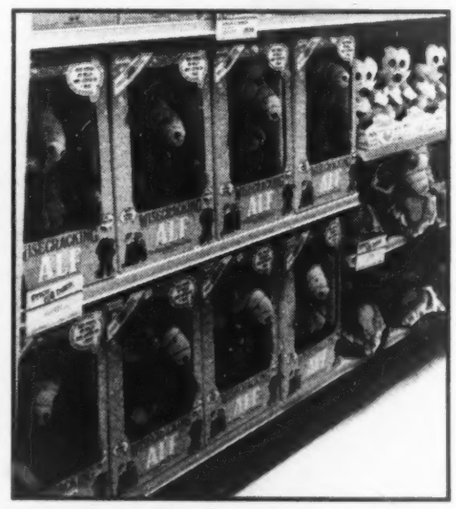
Among discount store shoppers, mentions of hair care/personal care items rose to 7.8 percent from 4.4 percent the year before. This occurred in an arena of increased competition from mass merchandisers, which stepped up efforts in this product category.

At the same time, department store operators appear to have released their hold on hair care products. No survey respondents mentioned department stores as likely places to purchase hair care/personal care products, compared with 2.3 percent who did so in the 1987 survey.

Of the top 10 hard lines products to make the Traffic Builder list in 1987, only four were repeats. This is due, in part, to a slight reshuffling of product categories by *DSN*.

In the 1988 survey, laundry products, household cleaners and household paper products were included in hard lines rather than home products.

These items were ranked four, five and six, respectively, on the current survey of hard lines products, compared to four, one and two, respectively, on 1987's home products list.



Toys at Ames, Rocky Hill, Conn.: Consumers placed toys and games third among hard lines product categories in the 1988 survey. (DSN photo)

Only laundry products posted a gain in the number of total mentions and percent of discount store shoppers that named the category as a top traffic builder. Furthermore, the mean ticket skyrocketed from $18 to $34.

Both household cleaners and household paper products recorded a slight decline in the number of mentions for these products but still garnered a fairly high response percentage by customers reporting they were aware of sales and often shop discount stores. Even with the decline, household paper products, for example, posted a gain in its mean ticket price, from $23 to $30 on the current survey.

Toys and games, the No. 2 category on the hard lines Traffic Builders chart, rose from 14th to third on the current list at discount stores.

In fact, toys doubled its total mention rate in the hard lines category, from 2.8 percent in 1987 to 5.6 percent in the current list, and from 2.4 percent among discount store shoppers to 7 percent. Moreover, the mean ticket price jumped from $33 to $47.

(Continued on page 66)

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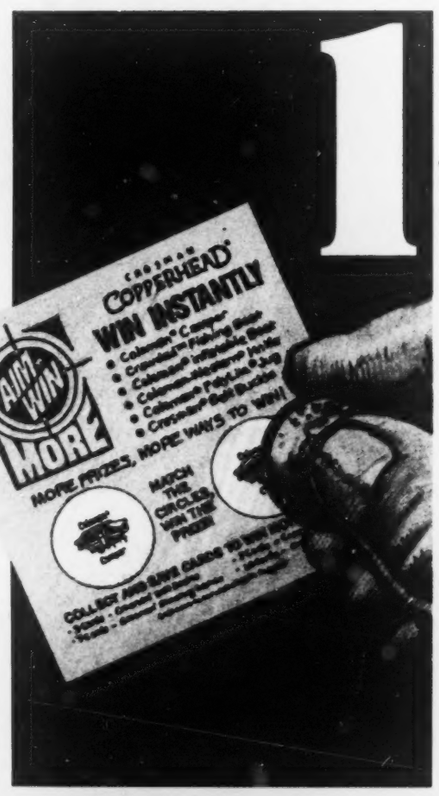

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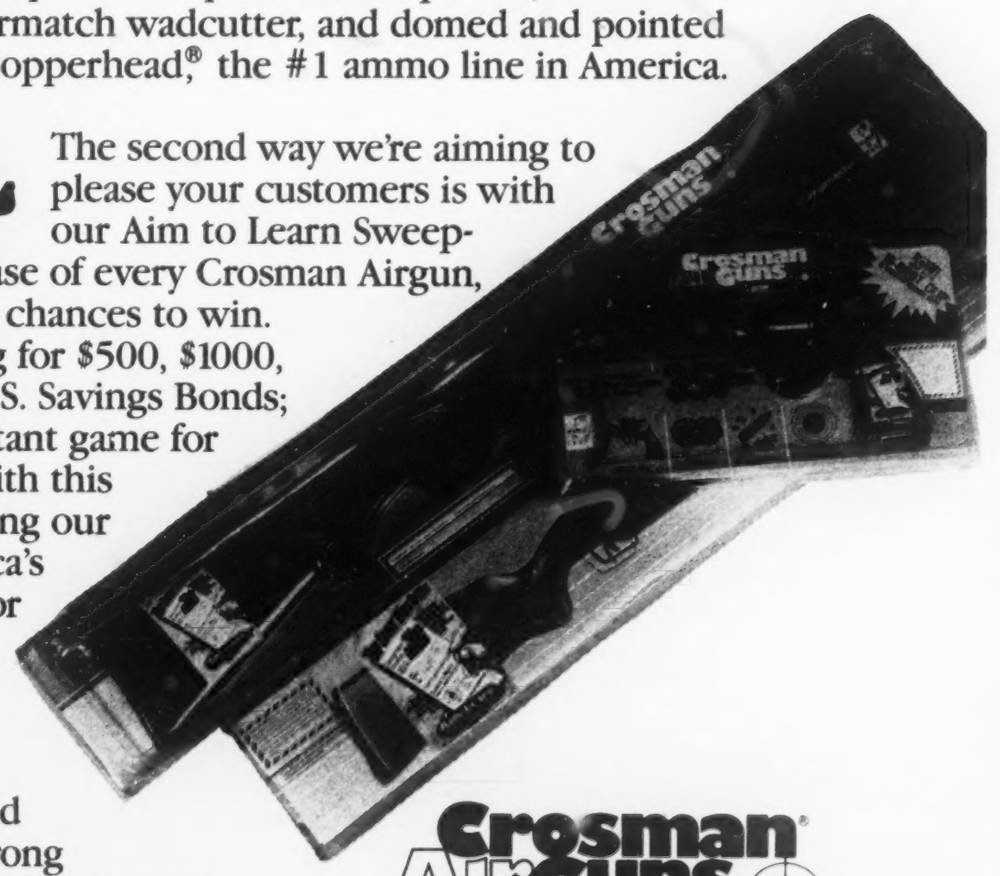

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HARD LINES/TRAFFIC BUILDERS

Laundry products at ALCO, Topeka, Kan.: Re-categorized as a hard lines product, laundry products received more mentions from consumers in the current survey as a top traffic builder. (DSN photo)

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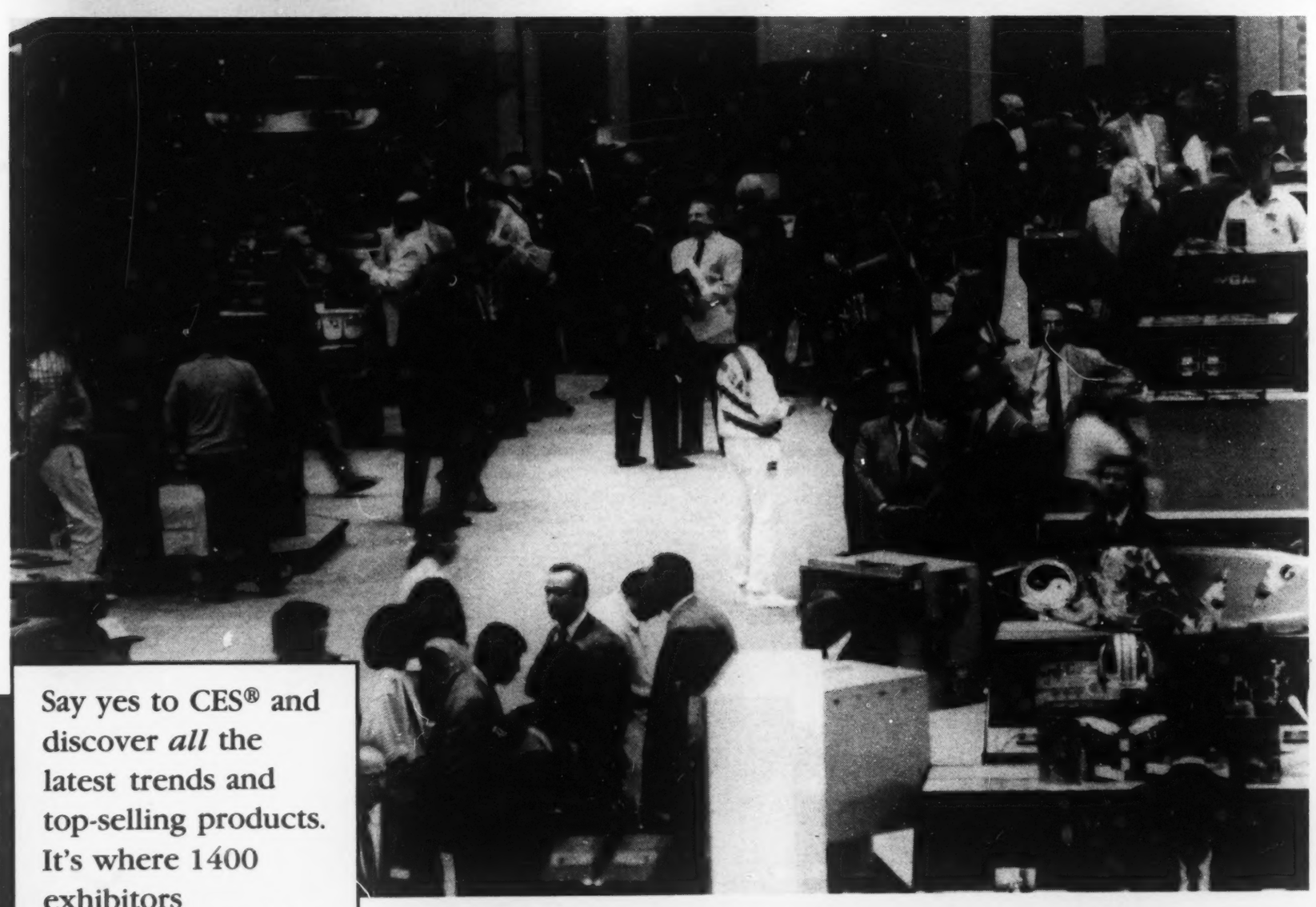

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Personal Care, Candy Generate Hefty Add-Ons

(Continued from page 64)

Other products to make the top 10 hard lines traffic builder list in 1988 included Halloween costumes and decor—a result of the survey's proximity to Halloween—other food and candy, other automotive products, and motor oil.

Motor oil dropped from fourth place on 1987's hard lines traffic builders list to 10th place in the current survey. Consumers mentioned motor oil as a top performer only 1.5 percent of the time; among regular discount store shoppers, motor oil garnered 2 percent of mentions. Despite the drop, motor oil held tight to its $30 mean price tag, substantially more than the average cost of a single can, 99 cents.

Other automotive accessories also fell slightly from the year-earlier survey, to ninth place from sixth. And, the mean ticket price fell, too, probably a result of some retailers' diminished emphasis on the service end of the business, which tends to bolster the average ticket.

Over-the-counter drugs fell from seventh in the 1987 survey to 11th last year, and light bulbs, which was eighth in 1987, fell to 18th on the current survey. Pets and pet supplies went from ninth to 17th. Antifreeze, 10th in 1987, was not even on the top 20 hard lines traffic builders list.

Specific hard lines brands accounted for six of the 10 top labels at discount stores, including the top two, Tide and Fisher-Price. The year-earlier survey had about the same number of hard lines brands. But the brands were different. Tide was the only hard lines brand from the 1987 list to appear on the 1988 survey.

Tide also jumped from sixth to first, more than doubling its response rate and providing evidence of the improving stature of laundry cleaners at the discount store level.

According to survey responses, top hard lines traffic builder brands include Tide, Fisher-Price, Black & Decker, M&M's, Snickers and Quaker State.

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Magazines Can Enhance Profits for Discounters

(Continued from page 2)

Publishers of America and the Council for Periodical Distributors Associations, which represents wholesale distributors. It used a DPP computer model that the International Mass Retail Association had developed for discounters.

The study determined that magazines produce $1.52 in DPP per square foot, compared to an average of 80 cents per square foot for the entire store.

In the DPP study, Touche Ross worked with Target, Minneapolis, and Venture, O'Fallon, Mo.

Of 10 high-impact discount merchandise categories studied, magazines ranked No. 4 behind greeting cards, $3.13 DPP per square foot; cigarettes, $2.43; and prerecorded video, $2.26.

Results for the six other categories in the study were: candy, $1.47; home office, $1.32; prerecorded music, $1.13; miscellaneous checkout merchandise, $1.08; packaged foods, 53 cents; and paper products, 26 cents.

DPP measures retail profit by taking an item's gross margin, adding in discounts and allowances and then deducting specific handling costs. It goes beyond gross margin calculations by figuring the hidden costs of selling, such as transportation, pricing, stocking and storage.

The study indicates that discounters would do well to devote more square footage to magazines, which are a high-impulse item, said David B. Lee, vice president of consumer marketing for MPA.

Another advantage to handling magazines is that they aren't a high pilferage item, as compared to, prerecorded videos and cigarettes, Lee said.

Increasing space allotted to magazines might result in some dilution of DPP per square foot, Lee conceded. But the dilution would have to be huge to bring the DPP down to the store average of 80 cents from $1.52, he said.

The perceived gross margin on magazines is low, Lee said, about 20 percent. But other factors, such as a 7 percent retail stocking allowance, boost the DPP of magazines, he said.

Other Touche Ross DPP studies in the works include: film, for Kodak; pantyhose, Hanes; personal care products, Procter & Gamble; and home supplies, 3M. Touche Ross expects to complete these studies by September, said Doug Hoskins, a consultant in the company's San Francisco office.

Heck's Chapter 11 Plan on Hold

(Continued from page 3)

Under the original plan, stockholders would have been left with 10 percent of the company's stock, while creditors would have gotten 85 percent and company executives 5 percent.

Stockholders dropped their suits after Heck's agreed to increase stockholders share to 20 percent, decrease creditors' share to 75 percent and require executives to pay a nickel a share for their 5 percent interest.

Other provisions of the reorganization plan call for Heck's to give creditors $20 million worth of junk bonds and the proceeds from closing a total of 62 stores in a debt settlement. Creditors would have gotten a total of about 50 cents on the dollar in cash and securities.

Including a round of 20 more store closings announced after Christmas, Heck's will be left with 55 stores, concentrated in its home state of West Virginia.

Heck's expects to raise $7 million from selling the real estate and inventory from those 20 stores and will earmark that money for creditors. The proceeds would be in addition to the estimated $20 million raised from closing 42 stores last year. Those funds also are reserved for creditors.

K mart Signs On Satellite Hub

(Continued from page 2)

K mart hub or main data processing center, the discounter would have to electronically notify the GTE Spacenet hub to take over the discounter's network. The GTE Spacenet hub would first download the information needed to run the K mart network and then start operating the discounter's system.

The K mart stores would automatically stop using the satellite network until the Chicago backup hub starts operating.

The GTE Spacenet hub is aligned with the GSTAR 2 satellite and is equipped to transmit on the same Ku band used by K mart, so that there wouldn't be any change in the discounter's telecommunication network in the event the backup system had to be used.

DISCOUNT STORE NEWS

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Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

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MAGIC and Moore on Apparel

Bob Moore, the new head of men's and boys' wear at K mart Corp., is taking over a healthy segment of the discounter's business. For more on Moore and what he sees in store for fall 1989 and beyond, see *DSN*'s MAGIC show section (pages 27 to 34). Included in the special section is a look at what's on buyers' MAGIC shopping lists, a men's wear consumer survey and a pictorial look at men's wear at American Fare and other hypermarkets.

Venture Raises Profile Of Hard Lines Depts.

Expands Hardware, Automotives, Sporting Goods Mix

By Patricia K. Vandenack
Special to DSN

O'FALLON, Mo. — Venture, the $1.2 billion discount store division of The May Department Stores Company, has completed a chainwide remodeling of all hard lines departments in its 74 stores.

The remodeling, concluded early last month, expanded the stores' hardware, automotive and sporting goods departments with higher fixtures and the addition of 4,000 new items.

Venture executives said the expansion of the three departments is designed to make the stores more appealing to male customers and to make Venture more competitive with other chains that sell hardware, automotives and sporting goods.

"The expansion of the hard lines departments will attract new customers and provide more complete selections to current Venture shoppers," said Jim Davis, manager of hard lines merchandise presentation.

Construction and planogramming began on Jan. 2, 1989, and was completed in just five weeks. All hard lines departments had to be replanogrammed and adjacencies redrawn to make room for the expansion of the three departments, said Davis.

"We used to planogram on 54 inches," Davis said. "Now we planogram on 72 inches to increase our linear feet." As a result, all hard line gondolas were raised to 84 inches, creating a higher profile in the departments.

(Continued on page 52)

Caldor Launches Upscale Gitano Shop-Within-A-Store Test

By Kenneth M. Chanko

EAST PATCHOGUE, N.Y. — In a one-store test that pushes upscale merchandise presentation in the discount store industry to new heights, Caldor has opened an 1,800-square-foot Gitano shop within its women's wear department.

The Gitano shop, which is configured to allow six openings in and out of the shop-within-a-store, was unveiled with no fanfare or special advertising on Feb. 10 at Caldor's unit in East Patchogue, N.Y., a Long Island suburb. A formal grand opening, with sweepstakes and promotions to highlight the Gitano shop, was scheduled for March 6.

For years the store-within-a-store concept has been used as an effective way for upscale department stores like Bloomingdale's to maximize sales of a particular designer like Ralph Lauren. However, the Gitano shop in Caldor is the first time the concept has been attempted at a discounter.

Gitano president Haim Dabah added that the manufacturer expects the Gitano shop-

(Continued on page 54)

Gitano's new 1,800-square-foot shop-within-a-store in Caldor, East Patchogue, N.Y., is the first time a single vendor upscale boutique has been tried at a discounter.
(DSN photo)

K mart Widens Computer Shopping

Will Sell Merchandise on Interactive Prodigy System

By Arthur Markowitz

WHITE PLAINS, N.Y. — K mart diversified into both the electronic retailing and mail order business late last month when it began to advertise and sell merchandise on PRODIGY, the interactive computer shopping and information service.

K mart's decision to directly sell merchandise on PRODIGY was a change from its original plan, which was just to advertise on the service to draw shoppers to its stores.

The discounter's debut on PRODIGY came just as the electronic merchandising service started its national rollout by officially launching its operation at presstime in Detroit and Boston.

"Direct fulfillment is important to PRODIGY subscribers as the electronic retailer is designed to provide that service, so we decided to include direct selling, with the merchandise delivered by mail to customers," said Russ Jones, K mart's director of marketing support.

K mart signed on with PRODIGY "to learn about electronic retailing," he said. "We're looking at various modes so we can be competitive and see what works for us. If we want to make a commitment to this and to the mail order business we have to have a program to test."

PRODIGY plans to offer its service in New York by May and then Baltimore and Washington as part of its goal of a 12-market national rollout in 1989. The other seven markets haven't been identified.

The electronic retailer began operating last fall in Atlanta, the five California

(Continued on page 52)

Sears Slashes Price Tags; Starts Chainwide Revamp

CHICAGO — Sears cut prices on over 50,000 items in its stores and catalogs on March 1, marking the chainwide launch of its much discussed everyday pricing program.

***Discount Store News* will profile Sears, the impact of its new Every Single Day Pricing merchandising program and the development of power departments like Brand Central in an in-depth report in its March 20 issue.**

Sears' repricing move and overall restructuring of its merchandising business, eagerly awaited by competitors, manufacturers and security analysts, came on the heels of the company reporting increased sales but lower earnings for its merchandising group, which accounted for about 60 percent of the company's $50.3 billion in sales last year.

The Sears Merchandising Group's volume, reported for the traditional retail fiscal year ended Jan. 28, amounted

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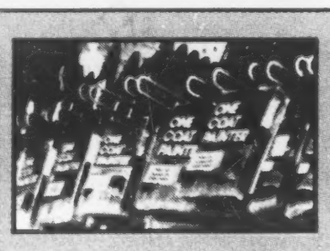

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Chains Seek Hardware Boost at Home Center Show
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MARKETWATCH

ShopKo Parent Sets $180M for Expansion

MINNEAPOLIS — ShopKo's parent, Super Valu Stores, has earmarked $180 million, or 38 percent, of its 1989 capital budget for 13 new ShopKo stores and a second Twin Valu hypermarket in Cleveland. One of the 13 ShopKos will be a replacement store, pushing store count to 99 from 87. The first Twin Valu opened late last month in Cuyahoga Falls, Ohio, a suburb of Cleveland, with the second due to open in Euclid, Ohio, in the spring of 1990.

S.E. Nichols' Deal Raises $4.1M

NEW YORK — S.E. Nichols has raised $4.1 million for general corporate purposes through the sale and leaseback of a warehouse used by its F.R. Schreiber wholesaler division. Schreiber supplies housewares and various other hard lines to Nichols and other retailers.

Telaction Plans Extended Reach

SCHAUMBURG, Ill. — Telaction expects its interactive cable TV shopping and information service to be available to about 165,000 homes in 39 Chicago suburbs by the end of the year, up from about 30,000 households in eight suburbs currently, Donald Gordon, executive director of consumer marketing, said at a Chicago Association of Direct Marketing seminar. While Telaction eyes a national rollout in 1990, its parent, JCPenney, continues to study options for the service, including selling an interest to another company.

GE Releases Software for EDI Network

ROCKVILLE, Md. — GE Information Services has released two enhanced software programs for EDI*EXPRESS System, its electronic data interchange network. Version 5.0 of The EDI*PC System provides a number of new features, such as customizing of documents, for the software used to run the EDI network. Version 7.0 specifically enhances the Administrative Systems software through new formats: expanded selection criteria for reports and a news feature that provides information about the EDI network.

Office Club Sales Jump; Losses Continue

CONCORD, Calif. — The 3-year-old Office Club reported a 376 percent jump in sales last year from $10.9 million to $52.1 million as it tripled its store count to 15 units. Preopening expenses related to that growth, however, were cited as the key factor for the chain's $3.2 million loss, up 39.1 percent from a $2.3 million loss in 1987. Office Club expects to open 12 units this year, mostly in current West Coast and Colorado markets.

Study Calls for UPC Codes on Coupons

CHICAGO — Manufacturers should put UPC codes on redemption coupons so they can be scanned to reduce misredemptions. That's the recommendation of the Food Marketing Institute/Grocery Manufacturers Association Coupon Scanning Task Force, which reported that a study conducted by Information Resources Inc. determined that 7.1 percent of coupons are misredeemed at checkout.

McCrory Appoints New CEO, Prez

YORK, Pa. — The Riklis Family Corp. has appointed new top officers for McCrory Stores. J. Philip Lux was promoted to chairman and chief executive officer, while Robert Spencer, who had been executive vice president, store operations, succeeds Lux as president and chief operating officer. McCrory operates 1,300 variety stores in 38 states and the District of Columbia.

AI System Hires Management Horizons

DUBLIN, Ohio — Management Horizons, a Price Waterhouse division, has become a "preferred consultant" for the ARTHUR merchandise planning system. 54 North Ltd. markets ARTHUR, an artificial intelligence merchandising system that develops total dollar and specific unit merchandise and assortment plans along a time line and within a season for chains and for individual stores.

FOR THE RECORD

DSN's report on Wal-Mart's expansion in the greater Chicago area (Feb. 20, page 1) should also have included stores in Joliet, Ill., which is in Will County on the fringe of the market. Wal-Mart opened a Sam's Wholesale Club in Joliet late last year and will unveil a discount store next door this spring. These units raise the company's projected store count in Chicago to at least nine Wal-Marts and three Sam's.

American Wholesale Retrenches, Realigns After Rising from Chap. 11

By Peter Hisey

PLANO, Texas — Less than a year ago, American Wholesale Club was a thriving four-store chain of membership warehouse clubs which had just expanded to the Chicago market.

Today, after a nearly disastrous stint in Chapter 11, the company is reduced to its original single location here and faced with a struggle to keep its doors open.

Jeff Zisk, company president, noted that American Wholesale has a lot going for it.

"We emerged from Chapter 11 in record time [six months] and we have the valuable support of nearly all of our key vendors," he said. "We've rethought our business," he added, "and asked ourselves, 'what should customers see when they first walk in the door?' "

The result is a slight realignment of departments, with apparel moved out of its front and center location in the store and replaced by business products and supplies. Books were shifted from the left side of the store to a low display directly in front of business products, resulting in a 30 percent rise in book sales without detracting from the business products presentation.

The company has added two major new product groups: alcoholic beverages (beer and wine only, due to Texas state laws), and an optical shop. It has also added a custom-order leather furniture department.

About the changes, Zisk allowed that American Wholesale may have been "misrepresenting ourselves to our business customers. The first things customers saw when they walked in the door were apparel, jewelry and consumer electronics—all consumer products."

Zisk said that, by placing typewriters, computers and fax machines up front, business shoppers would get a more immediate impression of American Wholesale's real product concentration.

(Continued on page 14)

Ames Fields Offers for Murphy

PITTSBURGH — Ames Department Stores confirmed that it is fielding offers for its G.C. Murphy variety store division.

Ames spokeswoman Catherine Leonard told *DSN* that a leveraged buyout bid from a management group headed by Garry Brown, general manager of the 137-store Murphy division, was one of several offers submitted to Ames' investment banker, Wertheim Schroder, based in New York. "I don't know how many offers were made," Leonard said. "There have been a number."

One of those other offers, according to published reports, came from McCrory, the 1,300-unit variety chain.

"We have a responsibility [to shareholders] to look at any offers we receive," added Leonard. She said that as a separate, distinct business unit within Ames, the Murphy division could easily be split off without affecting other operations. The division includes two relatively small specialty chains: Office Shop Warehouse and Bargain World.

Stationery Depts. Set for Upgrade

Execs Cite Home Office, Better Quality, Fashion Goods

By Richard C. Halverson

NEW YORK — Retailers are expanding and upgrading stationery offerings to capitalize on the burgeoning home office market and the willingness of consumers to spend more for higher quality and more fashionable products.

That's the major conclusion to emerge from a seminar, "Marketing Update '89," presented during the Back to School Show, Feb. 11 to 13 at the Javits Convention Center here.

The seminar drew some 200 buyers and exhibitors to a presentation with panelists: Larry Fine, divisional merchandise manager, Jamesway, Secaucus, N.J.; Steve Appel, founder, partner, Office World, Great Neck, N.Y.; John Kinzi, director, general merchandising, Drug Emporium; Lance Clark, merchandise manager, Snyder Drug; and Don McAllister, stationery buyer, Kerry Drug Stores.

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DSN publisher Fred Filer (left) with Steve Appel, founder and partner of Office World, Great Neck, N.Y., on 'Marketing Update '89' panel at the Back to School Show.

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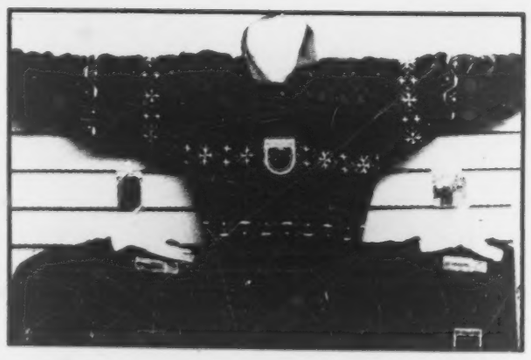

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DSN **INSIGHTS**

MEMBERSHIP WAREHOUSE CLUBS

Clubs Grow Faster; Eye $18B

By Arthur Markowitz
Nationwide DSN Report

The membership warehouse business this year will outpace its past explosive $2 billion to $3 billion annual sales growth, ironically aided in part by one of the industry's most successful clones—the office supply megastore.

This spin-off concept has increased the awareness of low-cost, warehouse-type merchandising of office supplies to a wider audience.

Spurred by the four wholesale clubs with billion-dollar-plus sales, the industry's annualized volume this year is expected to hit about $18 billion, up about 30 percent from about $14 billion in 1988.

The Big Four—Price Club, Sam's Wholesale Club, Costco and PACE—last year accounted for about $11 billion in sales—slightly less than 80 percent of the entire industry.

The $4 billion sales gain will come from both the maturing of the 48 membership warehouses opened last year and the approximately 70 new stores projected for this year. Overall unit count should rise to about 380.

Top Membership Warehouse Clubs

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Earnings (In Millions) 1988	Earnings (In Millions) 1987	Percent Change	Number of Stores 1/89	Number of Stores 1/88	Number of Stores Proj. 12/89
Price Club[1] San Diego, Calif.	$4,053.4	$3,236.3	25.2%	$94.8	$73.3	29.3%	41	37	51
Sam's Wholesale Club[2] Bentonville, Ark.	3,900.0*	2,711.0	43.9	NA	NA	—	105	84	127
Costco[1] Seattle, Wash.	1,988.7	1,370.0	45.2	14.4	5.1	182.4	50	43	60
PACE[2] Aurora, Colo.	1,285.0*	939.6	36.8	8.3*	7.7	7.8	39	32	46
BJ's Wholesale Club[2] Natick, Mass.	800.0*	580.0*	37.9	NA	NA	—	22	19	26
Price Savers[3] Salt Lake City, Utah	550.0*	300.0*	83.3	NA	NA	—	13	12	16
The Wholesale Club[2] Indianapolis, Ind.	402.0	271.1	48.3	3.0*	(0.8)	—	18	15	24
Makro[2] Cincinnati, Ohio	375.0*	300.0*	25.0	NA	NA	—	6	4	10
Warehouse Club[4] Niles, Ill.	249.1	223.4	9.1	(0.2)	(0.6)	—	12	12	12
Buyer's Club[2] Englewood, Colo.	100.0*	100.0*	0.0	NA	NA	—	4	4	5

[1]*Fiscal year ended August 1988*
[2]*Fiscal year ended January 1989*
[3]*Fiscal year ended December 1988*
[4]*Fiscal year ended September 1988*
**estimate*
NA—not available
Source: company reports

More Awareness of Industry

The growth in dollars and stores, in turn, reflects the greater awareness among businesses and consumers of the industry and its low-cost merchandising. Clones that have imitated the wholesale club concept in other retailing fields like sporting goods and office supplies have helped spur this knowledge. This is especially true among users of office supplies like small businesses and those who operate a home office.

Wholesale club and office supply megastore executives assert that in reality the two marketers currently are synergistic merchants, rather than direct competitors for the office supply business. Each uses a different merchandising program to try and carve out a major share of the $100 billion office supply market, a business that continues to grow faster than the 5 percent to 6 percent growth rate of the gross national product.

But PACE president Charles Steinbrueck warned that "in three or four years office supply megastores could start to cannibalize membership warehouses' office business and take away sales," just as wholesale clubs "were the first to take away business from office supply houses and impacted that industry."

Membership warehouses "need to change and adjust their business to new competition as it arises. Those retailers who don't change are in a sense self-liquidating without the knowledge that they are doing so," he added.

'In three or four years office supply megastores could start to cannibalize membership warehouses' office business and take away sales.'

—Charles Steinbrueck, president, PACE

Membership warehouses typically merchandise 130 to 150 office supply/office equipment sku's, selecting the key items that they believe will satisfy the basic office needs of most businesses. Office product wholesalers merchandise a much broader assortment, 2,000 to 7,000 sku's, that these retailers expect will fulfill all the needs, on an ongoing basis, of small businesses that employee up to as many as 100 workers.

At first glance, membership warehouses and office supply warehouses seem to be battling for the same business: that of low-cost supplier of office products to small businesses. Wholesale clubs, in fact, had a lock on that market before the advent of the office supply megastore.

The dozen and a half office product warehouses that have opened approximately 150 units during the past three years, mostly in metro markets that are home to wholesale clubs, often spot their megastores near by and even adjacent to membership warehouses.

However, office supply wholesalers, despite a growth rate that has mirrored that of the membership warehouses, presently account for only about $300 million of the office supply market. While membership warehouses don't specifically report the office supply portion of their sales, lumping these figures in with other categories, this business is estimated to account for 5 percent to 7 percent of the industry's volume or about $700 million to $980 million.

Membership warehouse's higher volume hides another difference between the two marketers: sales of office supplies to two different types of small businesses.

Office supply warehouses direct their business to "white collar" companies, small concerns like law firms, accountants, consultants and home office businesses.

Wholesale clubs address their operations to both "white collar" firms and "blue collar" businesses like restaurants, cafeterias, bakeries, service stations and small contractors, enterprises that use manual labor to supply goods and services to consumers and/or other businesses.

It could be said that office supply megastores have had a favorable impact on membership warehouse clubs—as they have greatly increased the public's awareness of the availability of office supplies at low cost, compared to traditional office products stores.

Office supply megastores have had "a favorable impact" on membership warehouses clubs because they have greatly increased the public's awareness of the availability of this merchandise at low cost, compared to traditional office supply stores, PACE's Steinbrueck said. About a dozen PACE units have office supply superstores as neighbors and "our office goods business in these units has actually increased with this competition."

A Price Club spokesman described office supply warehouses as "a different twist on the office supply business. The bottom line, however, remains who can provide the best quality products at the lowest price to businessmen, and membership warehouses continue to do this."

Office product warehouses are wrong if they consider wholesale clubs as their competition, added Price Savers president Tom Grimm. "Their concern should be traditional office supply houses as they can show a price advantage against these stores. We're better priced than the office clubs."

Businesses will use a membership warehouse "as their basic source of goods and then fill in from office clubs," said Thomas J. Geisse, senior vice president, marketing of The Wholesale Club. "They will use us first because of our lower prices and because we are more convenient and save them time by offering them the core supplies they need."

A BJ's Wholesale Club executive added "membership warehouses are different than office clubs. We offer businessmen a broad assortment of goods for their business and personal needs. We don't compete, we're synergistic."

The office supply megastore

(Continued on page 14)

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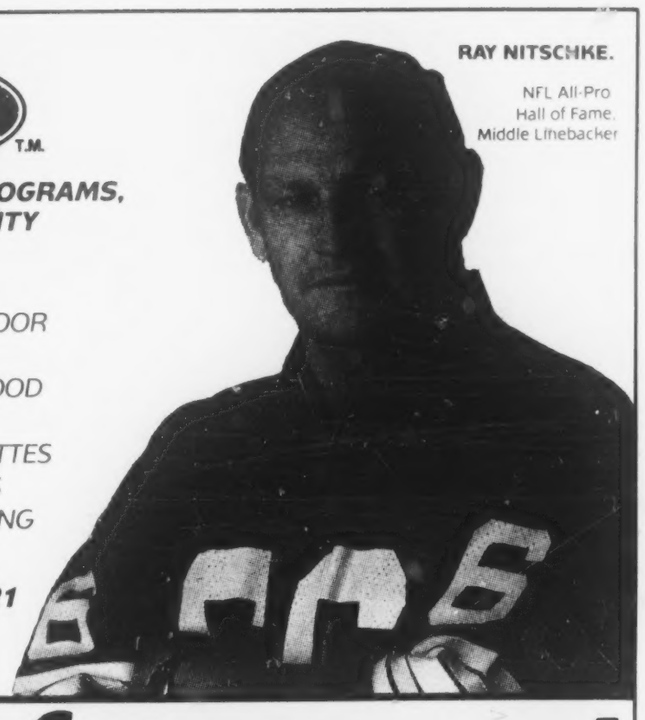

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American Wholesale Retrenches, Realigns After Rising from Chap. 11

(Continued from page 2)

Although Zisk said that office warehouses like BizMart haven't reached the northern Dallas region yet, the realignment was at least partly inspired by that potential threat to American Wholesale's customer base.

"We want to make sure that our members know we're the best source for business electronics, and that we have the best price," he said. "We may not offer all the services an office club does, like delivery and phone orders, but we offer the best price."

Similarly, though Zisk contends that Dallas' two hypermarkets are too far away to affect his business, Hypermart USA's optical shop "brought the idea to our attention."

In other post-Chapter 11 realignments, American Wholesale has beefed up its computer supplies selection, nearly doubled its furniture offering, increased its produce section, and introduced "Restaurant Alley," an aisle dedicated solely to a selection of goods most required by restaurant customers, including paper supplies, No. 10 cans of vegetables and condiments, and so on.

Also, the company is in the process of installing high-profile aisle banners to help customers shop quickly and easily. Nearly all of these changes are aimed specifically at appealing to business customers, who account for 65 percent to 70 percent of sales, according to Zisk.

One of the company's most dramatic moves, however, seems to violate a cardinal rule of warehouse club retailing. The company now accepts Visa and MasterCard, normally shunned by warehousers as too costly, given their skeletal margin structures.

Zisk said, however, that the company had negotiated a "very favorable" rate with the credit supplier, and that purchases on the cards average 60 percent more than cash and check transactions, more than making up for the increased cost of doing business.

Similarly, American Wholesale introduced its first circular at Christmas. Another 24-page flier is due this spring. Zisk said the fliers were necessary to "get the message out that we're still in business."

Vendors have picked up most of the cost of the circulars, which feature new products and stress business applications. The company is also producing a series of radio and TV ads, which will run for one week only this spring.

The company has also increased its H&BA selection, particularly in most-wanted brand names. "Normally, the margins just aren't there for these products," Zisk noted. "But we've found that selling two- and three-packs of large sizes builds the ticket up enough to make money."

"We're getting a second chance," Zisk said, "and most people don't get that opportunity. We have a chance to learn from our mistakes and put what we've learned into effect."

And what were those mistakes?

Entering Chicago, where The Warehouse Club had already failed, may have been the biggest one.

Although Zisk contends that the locations and concept were both good and that the company just ran out of time, he conceded that American Wholesale ran into a "Warehouse Club hangover. Customers thought we were just the same bunch with a new name, and we didn't have enough time to turn them around."

The company may also have been thrown off guard by the ease with which it built a successful business from scratch. "In the formative years [of the warehouse club industry], we all did great," Zisk noted. "Price was the key, and we had it."

The market has changed since then, and warehousers have to do a better job of merchandising, he added.

The most important variable, Zisk claimed, was a series of actions by competitor Sam's Wholesale Club, which opened a unit one mile up the road from American Wholesale about two years ago. The company contends in a multi-million dollar lawsuit, that Sam's competed unfairly and operated in a way meant to put American Wholesale out of business.

"First of all, why open up so close to us?" Zisk asked. "There were plenty of locations in this area."

More damaging, however, was an announcement Zisk contends was made in the nearby Sam's last April, celebrating American Wholesale's bankruptcy and both congratulating associates and thanking customers.

"That was 60 days before we went into Chapter 11," Zisk noted, "and our credit and sales dropped off immediately. Our new membership sign-ups were cut in half."

The suit is still in the discovery stage, and is not expected to see a courtroom soon.

For now, the company will "put more emphasis on defining our image. We're still a little too piecemeal, but we'll pull it all together in the next few months," Zisk said. "There will be some expansion in some departments, but mainly we're going to refine our mix."

The company has named John Matera, a former Joske's executive, as vice president of finance, and Zisk said a couple of major appointments are upcoming.

"When you're in Chapter 11, it's tough to be a good merchant. But the warehouse looks better than it ever did, and our customers are coming back. We're focusing on our assortment and our associates, trying to make our members only want to shop at American Wholesale Club."

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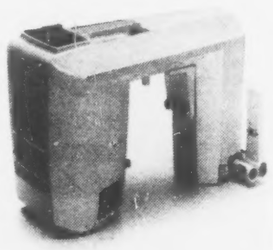

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Clubs' Super Growth Continues

(Continued from page 13)

concept "grew rapidly because Wall Street likes these retailers and has been heavily financing these ventures," Buyers Club president Ken Bagus noted. "They are an attractive idea in inner-city areas where it's difficult to find the 12 acres for a membership warehouse."

Office Depot chairman and chief executive officer David I. Fuente agreed that the office supply warehouse concept currently is a big hit on Wall Street. "Wall Street, venture capital and vendor credit has helped to finance the industry," he said.

H.Q. Office Supplies Warehouse "aims to match membership warehouse's prices, but I don't think we are going to hurt them," said Brad Tukey, president of the just-launched megastore chain. "Office supply is a fragmented field, with most of the business done by independent retailers," he explained.

But both megastore chain executives implied that the membership warehouses' merchandising left lots of room for office supply megastores. They specifically challenged the idea that wholesale clubs met the basic office needs of small firms and home office businesses through their limited assortment and limited continuity of items.

Fuente said that membership warehouses' approximately 200 sku's of office supplies "have hit the top items, but this assortment is a far cry from the 20 percent of the office supplies that really account for 80 percent of the industry's volume."

Tukey pointed to the Office Club's public filing late last year in which that office supply super store reported that it took 650 sku's (out of 2,200 sku's) to account for 85 percent of the chain's sales. He added that there were voids in the wholesale clubs' marketing of office furniture and equipment like fax machines and telephones that left sales openings for office supply warehouses.

Steinbrueck said that adding sku's was just one possible membership warehouse response to any future challenge from office supply super stores. Another possibility was developing services geared to the specific needs of small businessmen.

The Price Club spokesman said office supply warehouses were competitors "just like traditional office supply houses and lots of other merchants and I don't see any specific need for us to change our business or add services."

Grimm added that "we operate on volume and efficiency and if we expand our sku's we lose our efficiency. Right now I'm satisfied with where we are focusing our office merchandising."

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Dockers-Look Pants Catch On at Discounters

Nationwide DSN Report

While denim jeans continue to be the most popular casual bottoms option for most men, the dressier all-cotton or cotton-blend slack is becoming an increasingly attractive alternative.

In a consumer survey conducted last month by Leo J. Shapiro and Associates, Chicago, for *DSN*, nearly one in three males (31 percent) said they will definitely or probably buy casual cotton slacks.

Prior exposure to these new, Dockers-style slacks increases interest in purchasing them, the survey found. Among consumers who said they have heard about or noticed Dockers—the heavily advertised slacks from Levi Strauss—41 percent said they are likely to buy cotton slacks in the coming year.

The slacks were described to the 450 household national sample as follows: "Recently, some clothing manufacturers have come out with some slacks for men that are more for casual wear but are a bit dressier than jeans. They often come in all cotton and have pleats in the front. They can come in many different colors, including tan."

When men and women were asked whether over the next year "there is any chance that you may be shopping for men's cotton or chino slacks," one in four (25 percent) said "yes," 68 percent said "no" and 6 percent didn't answer.

When asked the same question about jeans, more than one in two (55 percent) said "yes," they would be shopping for jeans over the next year.

Nearly half of the respondents (44 percent) said that they have heard about or noticed these slacks, and four in ten said these slacks "sound interesting."

They expect these slacks to be comfortable (21 percent) and versatile ("can be worn for dressy or casual wear"—14 percent). Among consumers who are likely to buy these slacks in the coming year, 41 percent are attracted to their comfort, 24 percent like their versatility and 21 percent like the pleats. Cotton blends (52 percent) are slightly favored over all cotton (40 percent).

Although few men (4 percent) spontaneously named Dockers as one of the brand/designer names carried on the product, more than one in three (39 percent) said they have heard of Dockers when asked directly. And one in four who have heard of Dockers associate them with Levi's.

The highest percentage of men (35 percent) said they expect to pay $20 to $30 for casual cotton slacks, with 30 percent expecting to pay $30 to $40.

Only 7 percent of all respondents said they would most likely purchase cotton slacks at a discounter. The most popular men's wear item likely to be purchased at a discounter is jeans (11 percent), with knit tops (8 percent) the next most likely purchase.

Tan/brown (40 percent) was the clear color preference in the Dockers-look slacks, with the next most popular color being blue (21 percent). After that came white (11 percent), gray (8 percent) and black (8 percent).

Consumers are generally satisfied with the current styles in casual slacks, particularly women. When asked how they felt about the men's wear styles, 41 percent of the women and 34 percent of the men said it's better compared to past seasons. They attribute the better looks to the "different styles" available (21 percent) and to brighter/more variety of colors (18 percent). Of those who said the styles were worse this year, most complained that the clothes were too baggy (33 percent).

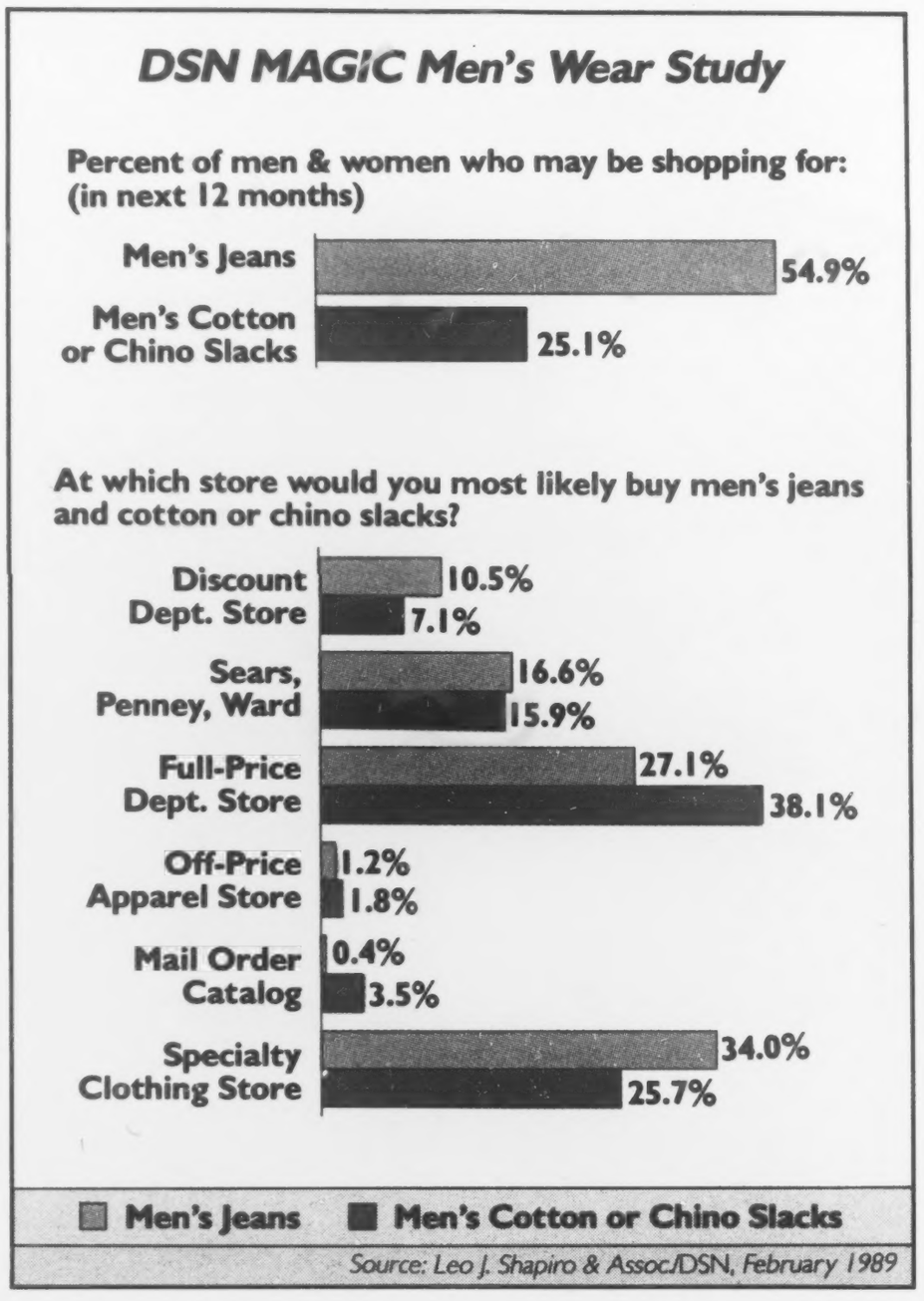
Probably one of the biggest differences between jeans and casual slacks in the consumer's mind is the degree of brand association. When asked, "What label or brand do you associate with men's cotton or chino slacks" (asked before the questions about Dockers), no brand/label was named by more than 1 percent of the respondents. Yet when asked the same question about jeans, 53 percent said Levi's, 12 percent said Lee and 6 percent said Wrangler.

Because the Dockers-style bottoms are dressier than jeans, the most popular retail segment from which consumers will buy casual slacks/chinos is full-price department stores (38 percent). Discounters were named by just 7 percent as a likely place to purchase the product.

When it comes to an individual chain from among the discounters and mass merchants, JCPenney (8 percent) is the most popular outlet for casual slacks/chinos, with Sears (5 percent), K mart (4 percent), Montgomery Ward (2.7 percent) and Wal-Mart (2 percent) following.

For jeans, Penney (9 percent) is also the most popular chain from among discounters and the mass merchants, but discounters in general are more popular destinations for consumers who want jeans rather than casual slacks.

As part of the survey, general questions were asked about ownership of men's wear. The survey showed that the majority of American males already own at least one dress shirt (87 percent), one pair of dress slacks (84 percent) and jeans (84 percent). Just over half (55 percent) own shorts, while slightly fewer own casual cotton slacks/chinos (42 percent) and knit shirts (41 percent).



Hot Jean Maker's Name Spreading

Brittania Inks Licensing Agreements; Shipments Begin

NEW YORK — The red, white and blue Brittania signature and logo is spreading from jeans to outerwear, underwear, footwear, ties and accessories.

Brittania, a division of Levi Strauss and makers of one of the discount industry's hottest branded jeans programs, has inked several deals to license the Brittania name on a number of other apparel items.

"We believe the Brittania name is remembered by women who wore their jeans many years ago, and is being accepted by the newer juniors' market that is now getting acquainted with Brittania," said Leon Sokoloff, who is directing the marketing of a collection of 100 percent cotton women's bikinis and briefs being produced by Nantucket Industries, New York, under the Brittania logo.

"It's a department store line in quality and presentation, at mass merchandiser prices," added Steve Samberg, also of Nantucket, who is in charge of the men's underwear program.

Other new Brittania licensees are Aberdeen Sportswear, which is making Brittania outerwear; Wemco, ties; Pagoda Industries, footwear; and Humphreys Inc., accessories.

Brittania outerwear for men will begin shipments to stores in June, said Joel Stoltz of Aberdeen. The fall 1989 selection includes bomber jackets and parkas in 100 percent cotton canvas and soft brush twill, washed nylon, corduroy and denim. The liner weights range from lightly brushed flannel to quilted and sherpa. The jackets will retail at between $39.99 and $65.

Aberdeen is currently Levi's outerwear licensee. "We share with them the belief that the discount stores will become a more important force in retailing and that we need a branded vehicle like Brittania to share in the upscale part of their [discount stores] growth," Stoltz told *DSN*.

Howard Orne, president of the Hillcrest division of Wemco, said the Brittania ties have already been shipped to discount chains, such as K mart, Target, Harts and Meijer. Retailing at between $7 and $11, the tie selection includes a wide range of fabrics, from synthetic to natural fibers, and a diversified mix of styles, from narrow ties for young men to wider ones for older customers.

The Brittania men's underwear will start shipping this month and will be on store counters by April. Samberg of Nantucket reported that $4.5 million in orders have already been written with 10 major discount store chains. The company projects it will ship $120 million of Brittania men's underwear this year.

The opening line of 13 different colors includes knitted low-rise and string bikini briefs in 3-packs, retailing for about $9, and an assorted woven boxer short program, retailing at about $4 each.

The women's collection consists of a twist on the men's wear look with fashion basics in both bikinis and high-leg briefs. Fashion coordinates include T-back and U-back crop tops, string bikinis, string briefs, high-leg briefs and knit boxer shorts. The bottoms use wide waistband elastic with the Brittania logo and colors are mostly medium to bright pastels. Retail prices range from $2 to $2.25 for bikinis, $2.50 for high-leg briefs and $4 for crop tops.

The footwear is a sporty line of athletic shoes with a Reebok look; and the accessories are a wide selection that complement both the Brittania basic jeans and Brittania's Docker-look Brittgear line.

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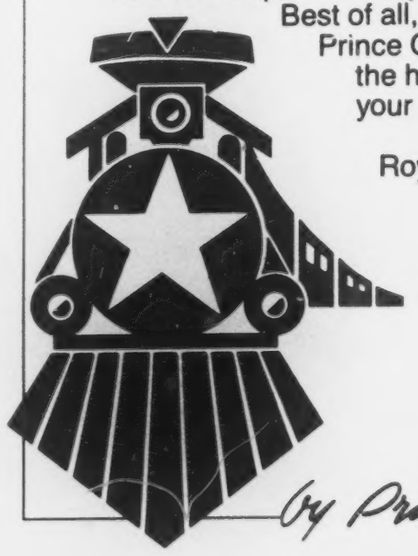

Royalle®
by Prince Gardner

Caldor Launches Upscale Gitano Shop-Within-A-Store Test

(Continued from page 1)
within-a-store will be installed in two other discount chains before year-end.

"We're very excited about it," said Marc Balmuth, president of Caldor, one of May Department Store Company's discount store divisions. "Even in its first week, before the grand opening, it's ahead of our plan."

Balmuth added that Caldor "sells a lot of Gitano, but we didn't think we were maximizing sales by selling it by classification. This [the Gitano shop] is a much better environment for it."

"Our customers are overwhelmed," said John Greaney, store manager of the East Patchogue unit. "They're also very surprised to see a shop like this in a Caldor."

Greaney added that sales from the Gitano shop over the three-day President's Day weekend were "better than expected. It is one of our leading departments."

Dabah, president of The Gitano Group, the women's wear manufacturer, said, "The key is that with this kind of fun, exciting merchandise presentation, Caldor can sell more product at regular prices and can generate multiple purchases. A lot of people who walk into the shop are coming out with more than one item."

Dabah added, "Average sales per square foot at Caldor is about $139. We're looking very conservatively at $250 per square foot for that shop. It could go as high as $350, but we'd be satisfied with $250. The gross margins yielded from those sales will be substantially higher than comparable square footage sales from other areas of the store because it's coming from regular full price—not off-price—business."

Frances Lutz, Caldor's store level department manager for the new Gitano shop and women's wear, said of the shop, "The customers love it. And it's really spruced the place up. It's like a diamond in the middle of the store."

Located just off to the right of the store's entrance, the Gitano shop makes an immediate impression as shoppers walk through the door.

Five video monitors, which play Gitano runway fashion shows with contemporary music on the soundtrack, are on a trestle above the front entrance to the shop. Three of the monitors sit on a neon-red Gitano sign in large block letters. There are six other monitors scattered throughout the shop, along with about a dozen double-sided light boxes.

Practically every rack has a sign, and there are several lifestyle graphics (mannequin-like cutouts on which the apparel is fitted) highlighting the more contemporary merchandise. Gitano banners will be added before the grand opening, Dabah added.

Greaney said that 90 percent of the Gitano product Caldor carries is now in the shop. Gitano men's wear, maternity, plus sizes and basic jeans are in their normal apparel departments.

The space the Gitano shop now occupies had been two islands selling women's sportswear and outerwear, said Greaney.

Merchandise in the shop includes junior and missy jeans and sportswear, underwear, and accessories. The items run as high as $29.99 for a novelty lycra stretch acid-washed jean with a belt. A bodywear rack will be added soon, said Dabah.

Other higher fashion Gitano products, which Caldor wasn't carrying until now, are also being sold in the shop. For example, a separate rack of Choices by Gitano, a coordinated line of knit sportswear for "modular dressing," is now being sold in the store. Dabah said that up until now, the Choices line had only been available at Gitano's own retail stores.

The line has been one of the shop's biggest sellers—30 percent of the Choices stock sold out during the first weekend, he added.

The design of the shop and the fixturing has been lifted from Gitano's retail stores with very few modifications, said Dabah. "Our retail team developed the prototype, got it approved by Caldor management and set it up," he said. "It was like opening a small new Gitano retail store."

Dabah said that Caldor management "identified to us their objectives—their margin objectives, their turn objectives. Since we're also in the retail business, we had a good idea of how to go about it."

Dabah added, "The important thing here is that there has to be an unequivocal level of trust between the retailer and the manufacturer."

While business at the new shop in its first two weeks of existence has been better than planned, both Caldor and Gitano emphasized that the shop-within-a-shop is still just a test.

"With discount stores in general, there's more of a difficulty maintaining a shop like this," said Balmuth. "All issues of running a shop like this are going to be evaluated" before a chainwide rollout, he added.

Dabah said that Gitano executives from the retail segment are training the sales people at Caldor. He added that "we may share certain staffing costs with Caldor during peak hours."

Dabah added, "For example, an additional Caldor associate may be put on for a Friday or Saturday night. That associate's salary would be partially paid by Gitano, something like the way cosmetic departments are run in department stores."

Dabah said, "We have to evaluate these costs and our retail investment."

PACE Offers New Member Services

(Continued from page 3)
Mail, a national mail order pharmacy service, as its pharmacy vendor, rather than open an in-store department as other membership warehouses have done. "Our study found that a mail order pharmacy service offered members lower prices than if PACE ran an in-store department," Steinbrueck said.

Members call a toll-free number to order either brand name or generic drugs at savings of up to 40 percent. Prescriptions and refills can arrive within three days, but a week to 10 days is the usual time, so the service is mainly being used to obtain maintenance drugs.

PACE is testing new produce fixtures that cost less than metal units while providing a more attractive display. Fruits and vegetables with a long shelf life are stocked on the fixtures. Perishables like lettuce, cabbage and cauliflower are merchandised in the refrigerator.

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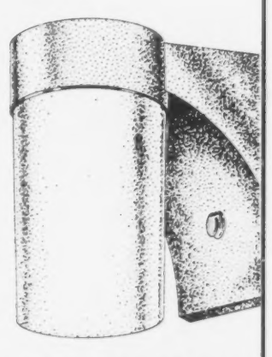

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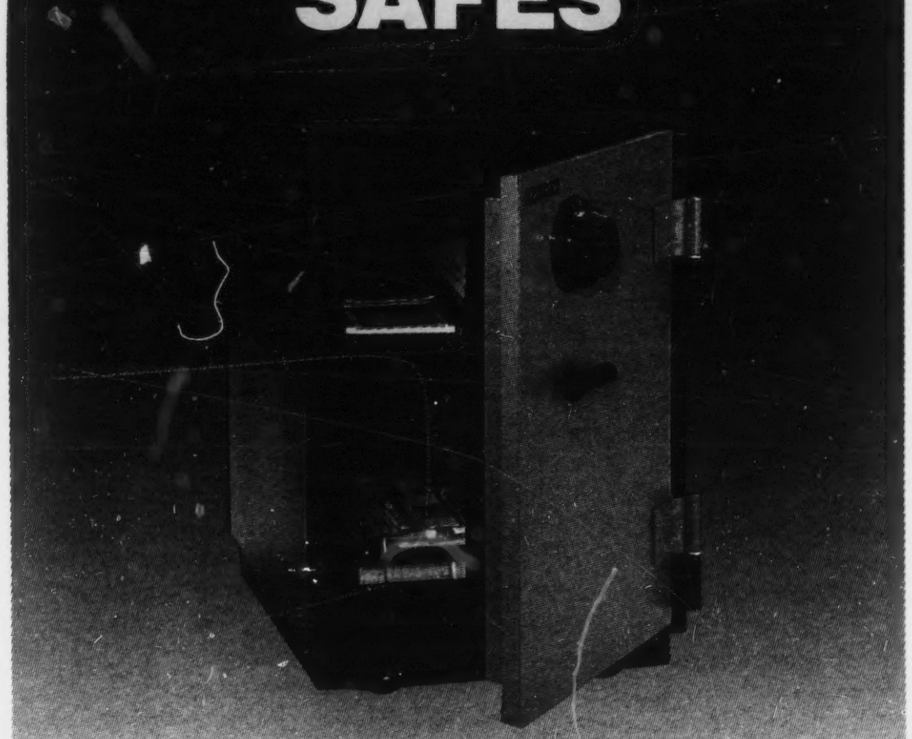

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Top Discounters Report Healthy '88 Sales, Income

By Kenneth M. Chanko

NEW YORK — In a stable but unspectacular economic climate, most of the top discounters reported healthy sales and income results for 1988.

Wal-Mart, Toys "R" Us, Circuit City and PACE were the star performers among the top 20 discounters and mass merchandisers (excluding some private companies), posting sales gains from all operations of more than 20 percent compared to the previous year (see chart, page 76).

In contrast, sales of the three mass merchandisers—Sears, JCPenney and Montgomery Ward—were flat, with none reporting sales gains in the double digits. Penney was the only retailer on the chart that posted a loss in sales compared to the previous year.

The figures also bear out, for the most part, that the mighty continue to get mightier in the discount store industry. K mart, however, is continuing to lose ground to its top two discount rivals, Wal-Mart and Target, in terms of year-to-year percentage sales increases. K mart posted

(Continued on page 76)

Caldor's Lone '89 Unit Unveils New Strategies

By Richard C. Halverson

MARLBORO, N.J. — To the strains of rhythm and blues and Dixieland jazz groups, Caldor celebrated the grand opening of its only new store for 1989.

Strains of another sort—glitches in its new scanning system—sounded the only jarring note at an event that filled the parking lot last month with eager shoppers and created traffic jams at the 14 checkouts.

Caldor, based in Norwalk, Conn., plans to pick up its expansion pace in 1990, said Don Clarke, chairman and chief executive officer, while touring store No. 120 with *DSN*. Caldor expects to open five new stores next year, including two or three on New York's Long Island. In 1988, it opened three.

At 83,000 square feet, the Marlboro Store was built from scratch to Caldor's first-ever prototype developed in 1988. Caldor's expansion was based on opportunistic acquisition of stores that range from 40,000 square feet to 150,000 square feet, he said.

The three 1988 stores were built to the prototype. But its older stores vary in size and

(Continued on page 9)

Shoppers thronged the new Caldor in Marlboro, N.J. (DSN photo)

JCPenney Set to Take Over, Relaunch Shop TV Program

LOS ANGELES — JCPenney has decided to expand its commitment to electronic retailing by proposing to take over cable teleshopper Shop TV and relaunch it next week as the JCPenney Television Shopping Channel.

Shop TV was developed and operated under a partnership between the retailer and Shop Television Network Inc., an American company listed on the Vancouver, British Columbia, stock exchange. The new agreement between the two firms, which is subject to approval by STN shareholders, would make JCPenney the owner of the video retailer and STN the exclusive production and marketing agent.

The new arrangement is designed to explore the synergies of teleretailing with JCPenney's catalog operation, including helping the retailer reach new customers and broaden exposure of the book's merchandise.

JCPenney will become the first traditional retailer to own a passive teleshopping network if the agreement is approved by STN Inc. stockholders. The retailer also owns Telaction, a Chicago-

(Continued on page 75)

Study: QR Implementation Could Save Discounters $3.9B Annually

By Arthur Markowitz

DALLAS — How does getting a share of an annual $3.9 billion savings sound to you?

Any discounter can do so by implementing Quick Response, according to a study on overall retail segments released at two conferences here on QR and its component technologies, UPC and bar code scanning, electronic data interchange and shipping container marking.

The study, conducted by Andersen Consulting for VICS, the Voluntary Interindustry Communications Standards committee, found that discounters would obtain the greatest benefit of any retail segment implementing QR.

In its study, Andersen Consulting reported overall dollar figures and the equivalent percent of sales (p/s) that would apply to an individual company.

Discounters overall would have to expend $1.3 billion (1.7 p/s) to implement QR and spend $159 million annually (0.21 p/s) to maintain this technology, but the total annual payback would be $3.9 billion (5.3 p/s) in savings.

Specifically, discounters' initial investment, annual costs and annual savings for specific QR steps are: UPC and scanning, $530

(Continued on page 4)

Ames, Target Hook Up Satellite Nets

New Technology Will Provide Integrated Communications

GERMANTOWN, Md. — Ames and Target have joined the growing number of major retailers plugging into satellite networks to obtain integrated data, voice and visual communications.

Both retailers will obtain their satellite systems from Hughes Aircraft Co. subsidiaries, Hughes Network Systems and Hughes Communications, at an initial cost of $10 million for Ames and $7 million for Target.

Ames, in a two-phase installation program, expects to hook up the 318 Zayre division stores to the company's headquarters in Rocky Hill, Conn., by September, with the 361 Ames units to be connected by mid-1990.

Target expected to have its 429 stores and distribution centers tied into its Minneapolis headquarters by fall, in time for holiday sales.

Sears, K mart, Wal-Mart, JCPenney and Service Merchandise are among the leading retailers that have proven the satellite network technology. Their use of satellites for transmission of sales data, credit authorization, conferencing, training and other uses has blazed the way for other chains to now employ this telecommunication system.

Ames' network, called AmesNet, will be used initially to transmit sales information, credit and check authorization, price changes and receipt of merchandise. Future plans call for such additional applications as electronic mail and video teleconferencing.

Ames began evaluating alternative communication technologies to telephones prior to its October 1988 acquisition of Zayre. Ames decid-

(Continued on page 75)

House Passes Min. Wage Bill

WASHINGTON, D.C. — Congress moved a step closer to a bitter minimum wage confrontation with the White House as the House of Representatives passed legislation to raise the national pay floor to $4.55 per hour.

President Bush, while supporting an increase in the minimum wage, threatened to reject any bill calling for an hourly rate above $4.25. The measure cleared the House by a vote of 248 to 171, but it fell short of the number need-

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Apparel:
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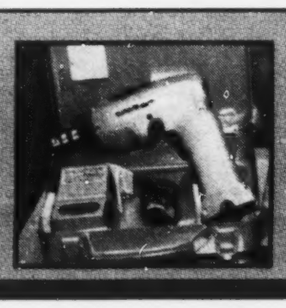

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MARKETWATCH

Ward Appoints Seven Execs to New Posts

CHICAGO — Montgomery Ward has appointed seven executives to new positions as part of its restructuring as a specialty retailer and the implementation of its everyday low price program. Richard Bergel was promoted to the newly created post of president, store operations while Daniel Levy was named president, apparel group. Malvin Pavik was named executive vice president, eastern territory and Tom Cato was promoted to senior vp, logistics. Other new vps named were Joseph Rotunda, customer service, Oscar Lizotte, central territory and Donald Elkin for new store start-ups.

J. Baker a Shoo-In for Zayre

ROCKY HILL, Conn. — Ames has extended the contract of its shoe department licensee J. Baker to the Zayre chain that Ames acquired last year. J. Baker will now run the shoe section in all Ames' owned discount stores for another 20 years. The transaction is worth about $60 million, which Ames will use to reduce the borrowing incurred in the Zayre takeover. The Zayre sections should increase J. Baker's sales by about $100 million annually.

Staples Planning to Go Public

NEWTON, Mass. — Staples, the pioneer office supply megastore, plans to go public, joining Office Depot, Office Club, HQ Office Supply and O.P. Club as the industry's publicly held chains. Staples plans to raise between $42 million and $51 million by offering 2,850,000 shares at $15 to $18 a share. It will use the funds to repay debt, increase working capital and for other company needs.

Jewelcor Honors Senator Specter

WILKES-BARRE, Pa. — Jewelcor Inc. presented a plaque to Sen. Arlen Specter, R-Pa., for his "tireless devotion and contribution toward building a stronger and more prosperous Northeastern Pennsylvania." The ceremony in the Jewelcor Center included, from left, Jewelcor Jewelers & Distributors president Marc L. Holtzman, Luzerne, Pa., County Commissioner Jim Phillips and Specter.

CompuServe Passes Half Million Mark

COLUMBUS, Ohio — CompuServe has become the first interactive computer home shopping and information service to pass the half million membership mark. This makes CompuServe the largest online service for personal computer owners, said president and chief executive officer Charles W. McCall.

S&P Downgrades Best's Notes

NEW YORK — Standard & Poor has downgraded Best Products' $135 million senior subordinated notes to Triple-C-Plus from Single-B-Plus due to the added debt incurred to finance Adler & Shaykin's $700 million leveraged buyout of the cataloger. S&P said "cash flow coverage will be weak in the coming years for the catalog showroom operator." S&P doesn't expect to further lower the notes' rating and sees little chance of raising the rating.

CBOE Trades Dress Barn Options

CHICAGO — The Chicago Board Options Exchange has begun trading options on The Dress Barn, a ladies apparel specialty chain whose 22.2 million shares are traded over the counter. The CBOE will trade Dress Barn on the January expiration cycle with other closings in April, May, July and October.

Dollar General to Close Arkansas DC

NASHVILLE, Tenn. — Dollar General plans to close its 350,000-square-foot Dumas, Ark., distribution center to cut distribution costs by $2.5 million. The facility serves 398 stores, but the company said that it can serve all of its 1,307 units "more efficiently" from its 430,000-square-foot Scottsville, Ky., and 250,000-square-foot Homerville, Ga., distribution centers.

KNOGO Broadens Security Service

HAUPPAUGE, N.Y. — KNOGO, a leading vendor of electronic articles surveillance systems, has broadened its security service beyond tags. It has made a "strategic alliance" with Vicon Industries to market closed circuit video systems known as "The KNOGO Surveillor by Vicon."

Carrefour Fights Rezoning Decision In Effort to Open Store in N.Y.

NEW YORK — Carrefour, the French hypermarket operator, has filed two lawsuits against the town of Brookhaven, N.Y., in attempts to overturn a rezoning decision that blocked plans to build its first United States hypermarket there.

But the town "plans to defend vigorously" against the suits, said Peter Scully, deputy town administrator of Brookhaven, located on Long Island. "We're confident the town's action will be sustained," Scully explained.

Last Nov. 1, Brookhaven rezoned the 69 acres of land for office and residential use that Carrefour bought for more than $18 million in 1986. When purchased, the land was zoned for shopping center and retail use. Community opposition over feared traffic congestion prompted the decision.

In addition to blocking its first hypermarket, the decision also cost Carrefour the sale of half the land that it was going to sell to Western Development, Washington, D.C., for a factory outlet strip center. Western was to purchase the land, contingent on town site approval of the hypermarket and the off-price strip center.

In suits filed in both federal and state courts, Carrefour is seeking $25 million in damages from the town and the seven members of the town board, as well as a judicial decision permitting it to build a hypermarket. In addition, it seeks an award of $20,000 a day for the fair value of the land for a period to be determined at the trial.

"Naming the individual town councilmen in the suit is an obvious attempt to intimidate them," Scully said.

Scully declined to estimate how much the town's defense will cost.

Brendan Dack, president of Carrefour's U.S. operations, also declined to comment beyond what he said in a press release announcing the suits.

"We have filed these lawsuits because we want to build a Carrefour store in Brookhaven," Dack said in a prepared statement. "We believe that

(Continued on page 76)

Discount Vendors Engaged In Major Acquisition Moves

Nationwide DSN Report

Two of the discount industry's major vendors, Black & Decker in power tools and Coleman in camping equipment, announced they are involved in acquisition moves.

In a $2.8 billion deal, B&D, Towson, Md., has agreed to acquire Emhart Industries. The purchase would add Kwikset door locks, Bostik adhesives, Price Pfister faucets and True Temper hand garden tools to B&D's line of power tools and small appliances. In addition, Emhart operates information and electronic systems, but B&D announced plans to sell that division to help pay down acquisition debt.

And The Coleman Company, Wichita, Kan., has agreed to be acquired by MacAndrews & Forbes Holdings, New York, for $545 million in cash.

New York investor Ronald Perelman controls MacAndrews & Forbes. His other holdings are Revlon, a major discount brand in cosmetics.

B&D's offer of $40 a share for Emhart, Farmington, Conn., blocks a hostile takeover move from Topper L.P., which had bid $35 a share. Under terms of its deal, B&D would get $85 million in fees from any bidder that lands Emhart with a higher bid.

In February, Coleman chairman Sheldon C. Coleman touched off an auction when he announced plans to take the company private at $64 a share in cash and securities.

Takeover has been rumored since last September when Coleman's father, who founded the company, died.

MacAndrews & Forbes' bid was $74 a share in cash. The offer is contingent on stockholders tendering at least two-thirds of the 7.4 million shares outstanding. The Coleman family controls 27 percent of the stock, and the firm agreed to issue 18.5 percent more stock and tender it, if needed to complete the deal.

DSN Adds Two to Board

Peter J. Hayes

Stephen T. Westerfield

NEW YORK — *DSN* has named two additional discount executives to its board of advisors. Joining the advisory board are Peter Hayes, president and chief executive officer of toy specialty chain Child World, Avon, Mass.; and Stephen Westerfield, corporate executive vice president of Silo, the Philadelphia-based consumer electronics specialty chain.

DSN's board of advisors is composed of executives representing various segments of the discount industry, including full-line discount department stores, catalog showrooms and specialty chains. The board meets regularly to provide input to *DSN* on issues of concern to the discount industry.

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TAKING STOCK

RETAIL TECHNOLOGY

QR: The Brewing Of a Retail Revolution

ARTHUR MARKOWITZ
Senior Editor

Let's make it clear from the start: Quick Response will cause a retailing revolution.

It will destroy the traditional retailer/vendor relationship and current reorder methods to, hopefully, build a better system.

The two QR conferences held last month in Dallas provided a glimpse of this Brave New World of retailing. Here are some of the implications:

The one idea emphasized by the handful of pioneers that have developed successful programs is that QR can work only if retailers and vendors changes their relationship. Each will have to move from their current adversarial dealings—squeezing out the last dollar, the last allowance—to a true partnership in which all parties have access to the same sales information so they know what's selling, what's not—and when, where and how much goods have to be replenished.

What this means is that buyers will be liberated to be true merchants, judging goods and deciding what to sell, rather than beancounters, checking numbers and mechanically filling out figures in reorder forms. On the other side, manufacturers will be able to marshal resources to support the merchandise that sells, reducing to a minimum the need to "eat" leftovers and returns.

If QR works as envisioned, retailers will reorder smaller quantities of goods more often, reducing inventory costs while increasing delivery costs. The inventory savings are supposed to more than outweigh the higher delivery expenses. However, retailers will face a major challenge: the need for much greater discipline than most have shown in the past to handle the faster replenishment.

QR could put everybody, not just upscale retailers, into the fashion business. Even the smallest chains, knowing what fashions are selling in their stores, could place reorders and get more goods—all within the short lifetime of a fashion cycle. But this sequence will work only if vendors become more flexible and responsive in their operations, receiving orders and shipping goods within a day or two. It's this speed that will enable retailers to remain current in their fashion business, get the maximum turns and avoid the need to mark down goods as styles lose appeal.

QR is expected to allow American manufacturers to resupply retailers faster than foreign vendors. But if Americans can conceive and develop QR, why should they believe that foreign manufacturers won't be able to adjust their production methods and continue to supply the biggest consumer market in the world, the U.S.A.? After all, retail technology isn't an exclusive American prerogative.

We are just at the beginning of the QR revolution. The next step could be a marriage between QR and artificial intelligence systems so that the reorder cycle isn't just based on what goods were sold and mechanically refilling the empty shelf spaces. AI could add intelligent insight on whether goods should be reordered and at what level the orders should be refilled, less if an item is on a sales decline or more if it's on a sales incline. AI could even help project the sales cycle, an important consideration to foreign vendors who want to continue to supply American retailers.

Discounters Can Benefit the Most From Implementing Quick Response

(Continued from page 1)

million (0.72 p/s), $128.3 million (0.17 p/s), and $1.6 billion (2.13 p/s); EDI, $5 million (0.01 p/s), $23.2 million (0.03 p/s), and $102.5 million (0.14 p/s); and SCM, $8.5 million (0.01 p/s), $7 million (0.01 p/s) and $223.5 million (0.3 p/s).

The initial QR investment would cost conventional department stores, including the Big Three mass merchants, $1.6 billion overall (2.2 p/s), with another $139 million (0.19 p/s) in annual costs, while the annual savings would be $3.7 billion (4.9 p/s).

The costs and benefits for specialty stores of all types would be less, $684 million (1.9 p/s) to start QR, $219 million (0.57 p/s) in annual costs and $2 billion (5.0 p/s) as the ongoing savings.

VICS commissioned separate studies on the costs and benefits of QR for retailers from Andersen Consultants and for manufacturers from Kurt Salmon Associates. They were disclosed first as a VICS-sponsored CEO Briefing meeting of top retailers and manufacturers and then at QuickResponse 89, a conference and trade show cosponsored by VICS and AIM, the Automatic Identification Manufacturers Inc.

The manufacturer study involved a broad group of vendors—apparel, home furnishing, housewares, cosmetics and recreational producers—who are pioneering the use of QR. But KSA only pinpointed the savings to the apparel industry, the largest manufacturer group using this technology. The figures were $5.2 billion to implement QR, $1.5 billion in annual cost and $5.7 billion in yearly savings.

Beyond the studies, each of the consultants produced a computer floppy diskette that a retailer or manufacturer can use to determine the cost and benefit for its own unique operations. The diskettes and manuals, designed for an IBM PC or compatible clone, are available from VICS, phone (800) 535-VICS or from the consultants.

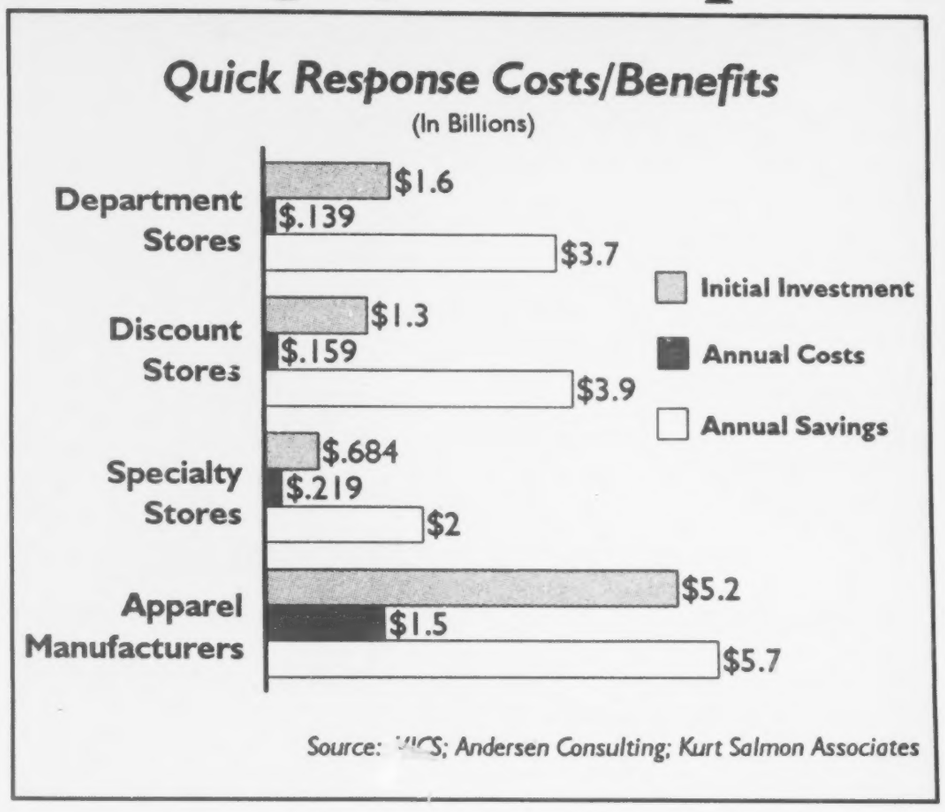
Development of the diskettes to individualize the potential costs and savings was meant to answer questions, voiced in the past by retailers and vendors, about the impact of the new technology and its applicability to a specific firm.

Recognizing this concern, retailers and manufacturers using QR expressed common themes at both conferences. The overriding message was that merchants and vendors should start to act immediately to implement QR because competitors are doing so.

Roger Milliken, chairman of Milliken & Co., considered the father of QR, noted that the technology was a revolutionary new way for retailers and manufacturers to conduct their business. "The number of revolutionaries is so much larger now than it was two years ago [when the first QR meeting was held]," he noted.

Bob Martin, Wal-Mart's vice president, information systems, said that questions about the technology "are behind us" and that how quickly a company implements QR "and focuses on the new rules and new opportunities to do business may well determine who will be successful in the future."

Retailer success stories on implementing QR were detailed by, among others, David Miller, JCPenney vice chairman and chief operating officer, and Marvin Goldstein, Dayton Hudson Department Stores vice president and general merchandise manager, RTW, at VICS CEO Briefing; and by Nick Lenhart, Mervyn's project manager, distribution and support systems, at QuickResponse 89.



Source: VICS; Andersen Consulting; Kurt Salmon Associates

One-Day Conference Held By Retail Systems Alert

NEWTON HIGHLANDS, Mass. — *Retail Systems Alert* will sponsor a one-day conference on retailers' use of decision support and information systems on April 27 at the Infomart in Dallas.

The speakers and topics are Alfred F. Lynch, JCPenney, Past, Present and Future of Retail Decision-Making; David E. Burlis, Edison Bros., Do You Buy Or Do You Design Executive Information Systems?; Ben Maguire, Touche Ross, Do You Buy Or Do You Design Knowledge-Based Systems?; Raymond H. Goodman, consultant, Case Study: How to Develop Decision Support Systems, and Douglas W. Dudnick, Carter, Hawley Hale, Case Study: How to Implement Decision Support Systems.

The demonstration area will include exhibits on a decision support system for shelf planning, a strategic merchandising package, an executive information system and a geographically based micromarketing package.

For information and registration contact *Retail Systems Alert*, P.O. Box 312, Newton Highlands, Mass., 02161. Phone: (617) 527-4626.

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Battery Market Seeks Recharge

Rechargeables to Generate Sales Surge

By Peter Hisey
Nationwide DSN Report

The $2.6 billion battery market may be recharged with the introduction this spring and summer of several one-hour rechargeable battery systems.

To date, Eveready, GE and Panasonic have announced introductions, and others will undoubtedly follow.

These introductions, according to the manufacturers, will be significant in that they will serve to overcome a major stumbling block to growth in the rechargeable category: Most Americans do not think seven to 14 hours in advance, and consequently find traditional rechargeable batteries unsuited to their lifestyles.

"Our research showed that consumers were much more concerned with the time factor than with cost," said an Eveready spokesman. "They were clearly willing to pay more for added convenience."

That might be an understatement in at least one area—personal audio, where some 40 percent or so of alkaline batteries now go. While the relatively inexpensive, powerful alkaline batteries will probably maintain their strong position in the market, a truly convenient rechargeable system could make significant inroads.

That, evidently, is GE's thinking. At the winter CES in Las Vegas, Nev., the company was showing a prototype of a pocket-sized charger that fast-charges a set of AA batteries. According to a spokeswoman, the product, which will debut sometime in the second half of 1989, is aimed at upscale consumers and will be priced accordingly.

The Eveready Generator battery and charger system will also carry a high price tag, perhaps twice as much as conventional seven-hour systems, and will be more flexible than the GE charger. It will handle C, D and AA cells, and automatically differentiate between new one-hour Generator cells and older trickle-charge models.

According to an Eveready spokesman, that distinction will be important. "No one will want to keep two chargers around for different types of batteries," he said.

The GE spokeswoman also noted that its product will recharge any existing rechargeable battery.

With or without the new one-hour products, the rechargeable market is a growth area. With major players ranging from Panasonic and Saft to GE and Eveready, other major manufacturers like Sanyo are also playing significant parts.

The popularity of newer, battery-eating products like camcorders, power zoom 35mm cameras, laptop computers, cellular telephones and boom boxes, has built demand for rechargeable cells to a record level, and the peak is nowhere in sight. Projected sales in this area are expected to exceed $550 million by the end of 1991, according to Eveready.

Saft, which has carved out a chunk of the business with its full line of camcorder, computer and camera battery packs, is in the process of developing a quick-charge product, which should reach the market by the end of the year. However, a spokesman for the company noted that faster-charging systems will appeal mainly to a select group of consumers. "The bulk of the business will be in less expensive products," he said.

A buyer for a major CE chain essentially agreed with that assessment, at least for the near future. "These will be specialty items at first," he said of the rechargeable market, "but I see them becoming the standard rather quickly." The impact will probably be felt most in personal audio products, which generally use AA batteries, he added.

"This market has grown steadily, and at times spectacularly, over the last 10 years," said an Eveready spokesman. "But there hasn't been anything new in the area in 20 years. This [the Generator system] could really stimulate the market."

A secondary factor may also stimulate rechargeable business. Legislation pending in several states, including New York, may restrict or outright ban traditional alkaline and carbon zinc batteries. Environmentalists contend that the products are unnecessarily polutive, and are pressuring legislators to restrict their usage.

If this campaign assumes national proportions, it could force consumers into the rechargeable market. According to Eveready research, less than 30 percent of all homes now own rechargers, and it can be assumed that many of those have consigned them to closets and attics because of the relative inconvenience of waiting seven to 14 hours for batteries to charge.

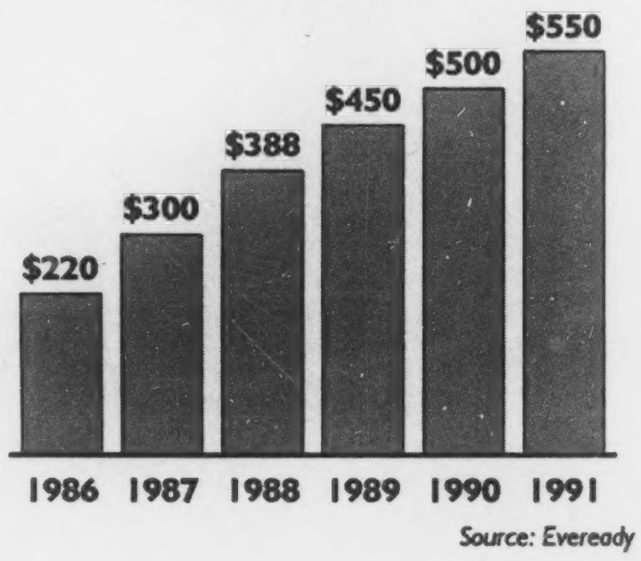
Such a switch over would produce, at best, mixed emotions among retailers, who

(Continued on page 25)

CE at Auchan, Houston: The popularity of battery-eating boom boxes has increased demand for rechargeable cells. (DSN photo)

Estimated Growth of Rechargeable Batteries

Retail Sales in Millions



Source: Eveready

MARKETWATCH

Atari Wins Injunction

MILPITAS, Calif. — Atari Games, which is embroiled in a series of legal disputes with Nintendo America over Atari Games' marketing of relatively inexpensive video games playable on Nintendo's systems, was granted an injunction prohibiting Nintendo from suing retailers for carrying Atari Games' Tengen cartridges. According to Atari Games, Nintendo had threatened major discount retailers with third party patent infringement suits unless they discontinued selling Nintendo-format Tengen games. Tengen formerly supplied software to Nintendo, which then packaged them in its own cartridges, making use of its own microchips. Atari Games, Tengen's parent, has sued Nintendo for unfair restraint of trade and patent infringement.

HDTV Makes Waves

WASHINGTON, D.C. — AT&T and Zenith have signed an agreement to cooperate on the development of HDTV technologies, the companies announced. The two are combining to produce a sophisticated HDTV receiver for military use based on Zenith's Spectrum Compatible HDTV system.

Export Directory Out

CHICAGO — The new 100-page Export Directory is now available from the National Housewares Manufacturers Association. The directory lists data on almost 900 NHMA members who currently export goods. Information given for each company includes: address, telephone and FAX numbers, type of product manufactured and sales regions. Directories are available for $25 plus $2.50 for postage/handling from NHMA, 1324 Merchandise Mart, Chicago, 60654.

Best Buy's Sales Slip

MINNEAPOLIS — Best Buy, the 41-store CE retailer based here, reported slightly lower sales for February 1989 over the previous year, in which the month had an extra shopping day due to leap year. Sales dipped to $31 million from $32 million, and comparable store sales dropped 5 percent, also partially due to the extra shopping day.

NBBL Show Nears

NEW YORK — In spite of contending mini-markets and single-manufacturer exhibits, the 21st International Bath, Bed and Linen Show will be held May 7 to 10 at New York's Jacob Javits Center. Over 600 manufacturers are expected to take part, according to the National Bath, Bed & Linen Association, the sponsor of the show. For further information, call the association at (212) 689-5550.

Polk Opens Two

CHICAGO — Polk Bros., the Melrose Park, Ill.-based CE and home furnishings retailer, opened two Chicago area stores in late February. The two stores, one in Melrose Park and the other in Naperville, were heralded with a 16-page insert in area newspapers and a $100,000 merchandise giveaway at Polk stores. The new locations feature redesigned sound rooms and state-of-the-art designer kitchen and bath shops. The Melrose Park store, at 170,000 square feet, also houses the company's executive headquarters, while the Naperville unit contains 45,000 square feet of selling space.

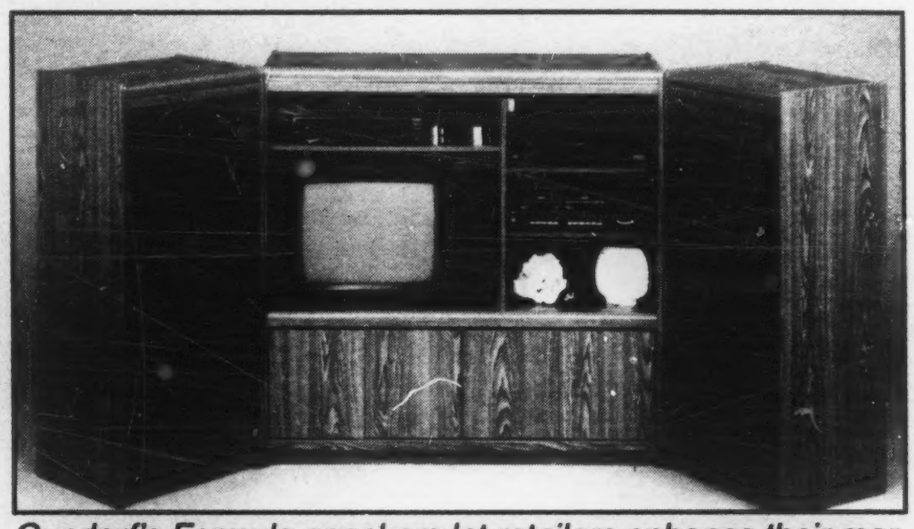
HOME PRODUCTS

Retailers Can Design Speakers, Prices

ST. LOUIS — CE retailers on the lookout for enhanced-margin products might be interested in Gusdorf Corp.'s collection of "fill-in-the-blanks" speaker cabinets. The RTA manufacturer introduced three different Formula cabinets at winter CES, noting that retailers will be able to design their own speakers and prices.

"Retailer control of component combination in packaging is bound to introduce new and varied profit opportunities," said Bob Livergood, Gusdorf's vp, sales. "The enclosures allow the retailer to get into do-it-yourself electronics packaging, thereby gaining a lucrative, flexible alternative to the prepackaged electronics/furniture combinations that are currently available."

Cabinets are available in three different price points, from budget to upscale, and match other Gusdorf RTA products. Formula speakers are "acoustically engineered to maximize sound quality, enhancing the bass sound reproduction of even unsophisticated speakers," said marketing manager Mike Gusdorf.



Gusdorf's Formula speakers let retailers enhance their margins with 'fill-in-the-blanks' speaker cabinets.

Franklin Schools Students With Donated Products

MOUNT HOLLY, N.J. — Franklin Computer has donated $186,000 worth of its handheld electronic reference products to 37 schools nationwide. According to the company, the products will be given to a variety of educational programs in an ongoing effort to measure the effect of the new technology on education.

The study will cover many programs, from primary school through adult education, in a variety of fields, including creative writing, language arts, spelling and reference skills.

"I believe we are seeing a revolution in the making, in that our products are essentially electronic books," said Franklin executive vice president Michael Strange.

A study recently conducted by Indiana University of Pennsylvania indicated that fourth grade students using a Franklin Spelling Ace performed at a sixth grade level in identifying and correcting misspelled words.

FORECAST: Strong sales out of the North, South, East and West

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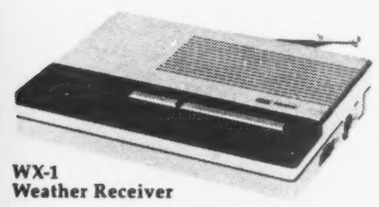

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Battery Market Seeks Recharge

(Continued from page 23)

now have a moderately profitable, consistent business in disposable batteries. The higher margins and price points of rechargeable batteries (as well as the add-on sale of chargers) would be a boon, but the drawbacks of selling a product that only has to be replaced once every five or 10 years are self-explanatory.

Even without that impetus, rechargeables are expected to become the second-largest segment of the battery market within a year or two, displacing carbon zinc. The reusable aspect of the product seems to strike a chord with consumers, and use has mainly been limited not by price (which works out to far less per battery hour than with alkaline), but by the fact that present technology just doesn't match up with the way people actually live.

If, as expected, the one-hour charge systems remove that deficiency, rechargeables may be the place to be in the '90s.

NHMA'S MIDYEAR CUSTOMERS' SHOW. THREE DAYS OF QUALITY TIME AND SERIOUS BUSINESS.

JULY 9-11
CHICAGO

NHMA

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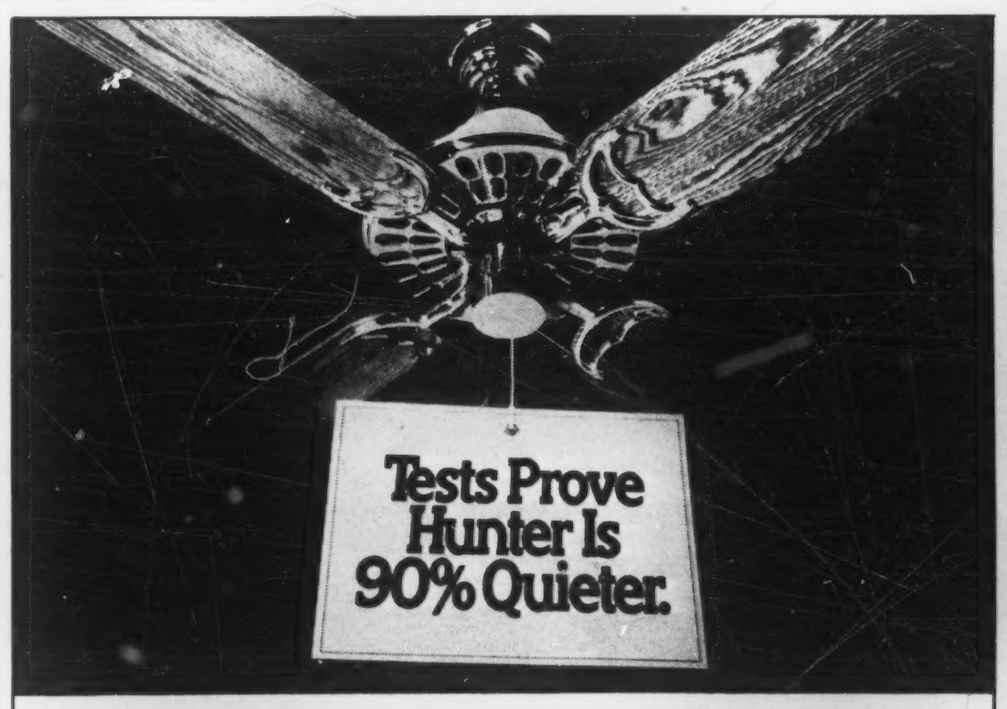

Sounds like more people will be buying Hunter fans this year.

If you want to sell volumes of higher priced ceiling fans, sell the one that's 90% quieter than the rest. A Hunter.

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FM

Spring, 1989

FOOD MERCHANDISING
FOR NON-FOOD RETAILERS

A special supplement to
Drug Store News and Discount Store News

Juices and Bottled Waters Page 30

Special FM report: Groceries' Strategic Role In Non-Food Stores

Features

FM Special Report: The Strategies Behind Grocery Promotions in Non-Food Stores

Buyers say groceries get consumers into their stores more often, and they also attract new shoppers. Their presence adds "value" to stores looking to hype volume.

Page 11

Exclusive Survey Of Grocery Product Buyers.

FM quantifies what's being promoted, how often, in what mediums and for what reasons.

Page 25

Juices & Bottled Waters

Two of the strongest growth segments in the beverage industry. Non-food chains are jumping on the bandwagon with more ads, cooler programs, and expanded space.

Page 30

Departments

Food For Thought

Soft drink promotions score with buyers.

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Packaged Groceries Play Key Role In Non-Food Stores

Some chains use groceries everyday to attract the "convenience" shopper while others prefer to aggressively promote grocery items to build traffic and sales.

According to grocery product buyers for nonfood stores, groceries are no longer an "alien" category in their stores.

Today, almost all drug and discount chains promote and carry some types of groceries, and in the pages of this special report, we quantify how extensively nonfood chains are involved in grocery merchandising—including the percent of drug and discount chains that stock and promote groceries, the frequencies of their promotions, why they carry groceries, how they display them, average margins and sell throughs, and more.

Without doubt, grocery's biggest value to nonfood chains is that they create traffic. Retailers told us that advertising groceries gets consumers into the store more often—and attracts a whole new base of customers.

"Groceries are important to us because we're looking for ways to build our business," says K mart's executive vp Larry Parkin. "Groceries are the driving force to get customers into our stores, and they also bring them back on a more frequent basis."

"When we promote groceries, we almost always get good results," says Harco Drug's grocery buyer Andy Horn.

"The presence of groceries adds something to a drug store. It tells your customers that you can satisfy a lot of their needs, that you're more than just a drug store.

"If they want Gatorade, we've got it. If they want brownies, we've got it. It makes them realize that we're more than just a place to pick up a prescription."

From interviews with nonfood grocery product buyers, we also learned that the role of packaged groceries in nonfood stores varies, depending on the chain and its specific marketing plans.

In discount stores, packaged

groceries are established as permanent everyday departments. The mix usually includes such commodities as tuna fish, pickles, jellies and condiments. Add to that candies, snacks, pet foods, household cleaners and beverages from soft drinks, juice and bottled waters to wine, beer and hard alcohol.

Some discounters, among them Wal-Mart and K mart, carry a relatively broad assortment of packaged groceries everyday. Others like Caldor and Bradlee's basically stock traditional items like candies, snacks and soft drinks.

Wal-Mart and K mart are also experimenting with "alternative" types of retailing in which grocery merchandising plays a major role.

K mart, for example, has acquired the Makro wholesale club chain which does 50% of its business in groceries. K mart is also testing hypermarket stores called American Fare as well as Super K marts which give about a third of their space to assorted groceries.

Wal-Mart also has a chain of warehouse clubs, Sam's, that does a heavy business in groceries. Groceries are also sold in the Wal-Mart hypermarkets, Hypermart USA, and in Wal Mart's deep discount drug chain, Dot Drug.

In the drug store industry, packaged groceries are in many chains as mini-convenience food departments, plus just about all the major chains use packaged groceries as traffic builders.

For instance, Walgreen and Thrifty Drug currently have convenience or c-food departments in about one-third of their stores, and are continuing to roll them out in appropriate markets.

Eckerd, Perry Drug, Peoples, SupeRx and Harco are all examples of major drug chains with c-food departments in some stores, but their expansion strategy is much more conservative than Walgreen or Thrifty. These chains generally authorize c-food departments only in urban stores or stores where there is no strong, direct competition with food chains.

Drug chains also vary widely on how strongly they promote groceries. Some chains prefer to promote only what they consider to be the traditional grocery categories for their stores—candy, soft drinks and snacks.

Most Drug Chains Promote Various Types Of Groceries

(% of drug chains that promote edible and non-edible groceries)

Grocery category	% of drug chains that promote this category
Snacks, chips, cookies, cakes	97%
Soft drinks	97
Household cleaners	93
Garbage bags	90
Paper products	90
Candy & gum	90
Packaged groceries	73
Bottled waters, juices, etc.	73
Pet foods	73
Food wrap	70
Beer, wine and liquor	47

Source: Lebhar-Friedman Research

Discount Chains Are Most Aggressive Promoting Edible Groceries

(% of discount chains that promote edible and non-edible groceries)

Grocery category	% of discount chains that promote this category
Snacks, chips, cookies, cakes	90%
Candy & gum	85
Soft drinks	85
Household cleaners	65
Garbage bags	60
Food wrap	55
Packaged groceries	55
Paper products	50
Bottled waters, juices	45
Pet foods	45
Beer, wine and liquor	20

Source: Lebhar-Friedman Research

The Most Frequently Advertised Grocery Categories In Drug Stores

Grocery category	% of drug chains advertising this category at least once a week	% of drug chains advertising this category at least once a month
Soft drinks	62%	89%
Beer, wine and liquor	50	92
Paper products (toilet tissues, etc.)	48	85
Snacks, chips, cookies, cakes	45	83
Candy & gum	44	85
Household cleaners	43	86
Packaged groceries (tuna fish, etc.)	41	86
Bottled waters, juices, etc.	32	78
Pet foods	32	77
Garbage bags	30	85
Food wrap	29	91

Source: Lebhar-Friedman Research

Others like to mix commodity groceries in with their candies and snacks because they see these products as appealing to a broad base of consumers. They also feel that it gives them an edge over the competition when they can advertise a grocery item at a price much lower than their supermarket competitors.

At SupeRx, Dave Coleman, manager-drug convenience, prefers to focus his feature ads on candies and snacks, the more traditional departments in the chain.

"We try to profile core departments in our ads," says Coleman. "The more we focus on them, the better we feel it is for our image."

Similarly, Walgreen prefers to focus on candy, snacks and soft drinks in its ads. Sources for the nation's largest drug chain said they see these categories as appealing to shoppers who like drug stores for "convenient" purchases of high consumption items like soft drinks or candy.

What Drug & Discount Chains Are Doing With Groceries

Most non-food chains have been promoting groceries for so long that their buyers have an excellent feel for what kind of product will sell on ad and what brand or commodity will do well in a permanent department—or even as a private label.

In discount stores, the most popular categories for everyday merchandising are juices, soft drinks, bottled waters, candies, cookies, crackers, instant/convenience meals or side dishes in a can or package, Noodle Roni, Chef-Boy-Ardee, Hormel canned meats, tuna fish and salmon, for example.

Jellies, jams, peanut butter, cereals, cake mixes and icings are also popular.

Usually the discount chains will stock an item by choosing the brand with the highest share that they can acquire at the most attractive cost. Buyers said that as long as a brand is among the top three or four on the market, it will sell in their stores if the retail price represents a good value.

Generally the drug chains that have permanent everyday grocery departments follow a philosophy similar to the discount stores, except they will usually stock smaller sizes and carry a broader assortment of product because they are trying to appeal to the same customer as convenience stores do.

In discount stores, a typical grocery item turns about 23 times a year, while in the drug store industry, the turn is closer to seven times a year. However, that's much better than the three to four times a year that the average non-pharmaceutical drug store item turns.

Warehouse clubs also turn their grocery mix dramatically. That's partly because of the traffic they generate. A typical warehouse club can do close to $100 million a year in sales, with 30% to 50% of that in groceries.

Their turns are also good because warehouse club buyers are fanatical about polishing their mix so they only keep the fastest movers.

Ken Kirwin, vp at Boston-based B.J.'s Wholesale Club, said the key to the category is a streamlined mix. B.J.'s used to stock about 1,400 grocery skus. Now they're down to 1,300, and they are constantly dropping slow turners.

"We only want the best selling items in the high consumption categories," Kirwin said.

The customers in warehouse clubs are small businesses and professionals as well as everyday home shoppers. This base of users are also buying groceries for resale either in Mom and Pop stores or in restaurants, or they are buying supplies like coffee, cleaners, toilet paper for their offices.

Industry sources consider the best selling brands at warehouse clubs to be from the strongest packaged goods companies—among them Procter & Gamble, Coca-Cola, Pepsi and General Foods.

The Most Frequently Advertised Categories In Discount Stores

Grocery category	% of discount chains advertising this category at least once a week	% of discount chains advertising this category at least once a month
Snacks, chips, cookies, cakes	39%	83%
Household cleaners	38	91
Candy & gum	36	72
Paper products (toilet tissues, etc.)	30	90
Soft drinks	30	77
Beer, wine and liquor	25	50
Bottled waters, juices, etc.	22	66
Pet foods	22	55
Food wrap	18	82
Packaged groceries (tuna fish, etc.)	18	81
Garbage bags	17	92

Source: Lebhar-Friedman Research

How Drug Chains Are Changing How Often They Advertise Groceries

(1988 advertising frequencies versus 1987)

Grocery category	% of drug chains advertising groceries		
	More often	Less often	The same
Candy & gum	37%	4%	59%
Beer, wine and liquor	36	—	64
Packaged groceries (tuna fish, etc.)	36	—	59
Household cleaners	36	4	57
Bottled waters, juices, etc.	36	5	59
Soft drinks	34	3	59
Snacks, chips, cookies, cakes	34	3	62
Pet foods	32	—	68
Paper products (toilet tissues, etc.)	30	4	63
Garbage bags	30	4	63
Food wrap	29	5	62

Percentages may not add to 100% due to rounding or don't knows/no answers

Source: Lebhar-Friedman Research

The Brands That Sell Well in Non-food Stores

At Alabama-based Harco Drug, Chicken of the Sea has done very well for grocery buyer Andy Horn, as have Pfeiffer salad dressings and Morton House Beef Stew and Chili.

Pet food promotions have also done well, and Harco has even included the Carnation canned lines, Mighty Dog, Fancy Feast, and Friskies Buffet in their spring and fall television ads.

"We don't usually advertise groceries on TV because most grocery manufacturers don't have those kinds of co-op dollars available," said Horn, "but we did feature Carnation in one of our TV ads, and it was very successful."

Ocean Spray and Welch's juices have also done very well in drug and discount stores, and in some markets, Veryfine has also been successful. Hi-C is also a good juice item.

Carnation, Quaker and Purina pet products also do well in nonfood ad promotions. Most buyers say they have good, strong brands in a high consumption category and that these manufacturers are cooperative. They also have co-op dollars available for nonfood stores.

In cleaners, Tide, Dawn, Cascade and Wisk are popular promotional items. The manufacturers are cooperative and creative with nonfood stores, and they put plenty of heavy advertising dollars behind their brands, buyers reported.

In nonfood stores, Act II, Orville Redenbacher and Deli Express microwavable popcorns, seem to be the best brands, with just about every buyer naming one of these brands as an outstanding success on ad.

The snack department has been a little dull otherwise, with some buyers complaining that there's nothing innovative in the category and that all they are getting right now are new flavors. Hormel could be adding some spice to the category, however, with Chi-Chi salsa, a hot dip for tacos, which some buyers say is good.

Bottled water is also coming on strong in many chains. Buyers haven't promoted this segment much, but the chains that have put it in as an everyday item report excellent growth on everything from Perrier as a sparkling water to the varigus regional brands of gallon jugs, most of which Perrier owns, and the seltzers, particularly New York Seltzer and Chicago Seltzer.

Keltsch Drug in Indiana carries seltzer everyday and while the chain hasn't advertised it yet, growth is exceeding 30% year-to-date just from in-store displays, said buyer Robert Fahrenbach.

In California, where health consciousness is a way of iife, Longs, Thrifty and Pay 'n Save are among chains doing swimmingly with bottled waters.

How Discount Chains Are Changing How Often They Advertise Groceries

(1988 advertising frequencies versus 1987)

Grocery category	% of discount chains advertising groceries		
	More often	Less often	The same
Soft drinks	29%	12%	53%
Packaged groceries (tuna fish, etc.)	27	9	55
Garbage bags	25	8	58
Household cleaners	23	15	54
Bottled waters, juices, etc.	22	11	67
Snacks, chips, cookies, cakes	22	6	67
Pet foods	22	11	56
Paper products (toilet tissues, etc.)	20	20	50
Food wrap	18	9	64
Candy & gum	18	6	76
Beer, wine and liquor	—	25	75

Percentages may not add up to 100% due to rounding or don't knows/no answers

Source: Lebhar-Friedman Research

How Discount Chains Plan To Promote Groceries In 1989

(1989 advertising frequencies versus 1988)

Grocery category	% of discount chains that will be advertising groceries		
	More often	Less often	The same
Beer, wine and liquor	25%	—	75%
Soft drinks	12	6%	71
Bottled waters, juices, etc.	11	—	89
Pet foods	11	—	67
Paper products (toilet tissues, etc.)	10	—	80
Food wrap	9	—	82
Packaged groceries (tuna fish, etc.)	9	9	73
Garbage bags	8	—	75
Household cleaners	8	—	77
Snacks, chips, cookies, cakes	6	11	78
Candy & gum	6	—	88

Percentages may not add up to 100% due to rounding and don't knows/no answers

Source: Lebhar-Friedman Research

Special Report:
Groceries' Strategic Role
In Non-Food Stores

Retailer Survey: How & Why Groceries Are Promoted

Today virtually all non-food chains promote at least some grocery categories. Buyers say groceries build traffic and create a "convenience" image for their stores.

Almost all nonfood chains stock groceries. Buyers say they satisfy the needs of convenience shoppers.

From 20% to 30% more drug and discount chains are promoting groceries today to build traffic than a year ago.

Moreover, about one-third of all drug chains are advertising groceries more often than a year ago, as are at least one-fifth of all discount chains, according to an exclusive survey of nonfood grocery buyers conducted for FM by Lebhar-Friedman Research.

FM, which sponsored the survey to quantify the extent to which nonfood chains are involved with groceries, discovered that all chains today promote some groceries—and the most popular promotions revolve around what buyers call "core" grocery categories.

Nine of every ten drug chains in the survey promote the following core grocery categories: snacks, including chips; cookies and cakes; candy; gum; soft drinks; household cleaners; garbage bags; paper products such as toilet and facial tissues.

More than two-thirds of all the drug chains also promote packaged groceries such as canned spaghetti, tuna fish and ketchup, plus juices, bottled waters, pet foods and food wraps.

Nearly half of all drug chains also promote beer, wine and alcohol.

Among discount stores, nearly nine of ten chains promote such core categories as candies and snacks.

More than half also promote garbage bags, food wraps, household cleaners, packaged groceries, and paper products. Four of ten discounters also promote bottled waters, juices, and pet foods, and one in five promote beer, wine and liquor.

How often groceries are promoted

Almost all our respondents said their chains promoted some groceries at least once a month. In the drug store industry, however, half of our respondents said they promote soft drinks and liquor at least once a week.

At least four out of every ten chain drug respondents also said their chains also promote packaged groceries, household cleaners, candy, gum and snacks at least once a week.

In discount stores, nearly one-third of respondents said their

chains also promote certain categories at least once a week, including household cleaners, candy, gum, paper and soft drinks.

Future Plans

This year, two out of every ten respondents said they plan to promote some underutilized categories like beer, wine and liquor, even more frequently than they did last year.

Beverage buyers said these are fast-turning categories, and they are getting easier to promote because more nonfood chains are starting to carry them everyday in all their stores.

Groceries are a prime "traffic builder"

Both drug and discount grocery product buyers said their chains advertise groceries primarily to build traffic: nine of every ten drug store retailers said this, as did eight of ten discounters.

Seven of ten respondents overall said they promote groceries to build "the frequency of store visits from regular customers"; over half said they also used grocery specials to create "impulse sales." In addition, more than one in three respondents said they promote groceries to create a "one-stop shopping" image as well as a "convenience" image for their stores.

How Drug Chains Plan To Promote Groceries In 1989
(1989 advertising frequencies versus 1988)

Grocery category	% of chains that will be advertising groceries		
	More often	Less often	The same
Beer, wine and liquor	21%	—	79%
Bottled waters, juices, etc.	18	5%	77
Snacks, chips, cookies, cakes	17	3	76
Candy & gum	15	4	78
Paper products (toilet tissues, etc.)	15	4	78
Garbage bags	15	4	74
Food wrap	14	5	76
Packaged groceries (tuna fish, etc.)	14	—	82
Pet foods	14	5	82
Household cleaners	14	4	75
Soft drinks	10	3	79

May not add up to 100% because of don't knows or no answers
Source: Lebhar-Friedman Research

How The Survey Was Done

Most respondents to FM's grocery promotions survey were either food, beverage and grocery product buyers or merchandise managers for major chains.

Two out of three respondents were either buyers or merchandise managers, 8% were general merchandise managers, 10% were vp's-merchandising, 4% were directors of purchasing and the rest held other titles.

The drug chains in our survey generated a median of $65 million a year in sales and operated a median of 39 stores.

The discount chains in our survey had a median of $163 million a year in sales and operated an average of 25 stores.

However, some of our discount store respondents were doing over $2 billion a year in sales and operated hundreds of stores, while some drug chain respondents were generating over $1 billion in sales and also operated hundreds of stores.

Altogether, 20 discount chains and 30 drug chains participated in the survey.

The Most Popular Advertising Mediums For Non-Food Stores Promoting Groceries

Vehicle	Discount chains	Drug chains
Direct mail, circulars, flyers, etc.	75%	83%
Local radio	65	57
Newspapers/magazine inserts	60	73
Store announcements	60	43
In-store circulars	60	70
ROP newspaper ads	50	60
Television advertising	40	50

Percentages exceed 100% due to multiple responses
Source: Lebhar-Friedman Research

Why Non-Food Chains are Advertising Groceries

Reasons	Discount chains	Drug chains
To build traffic	80%	93%
To build frequency of store visits	70	73
To generate impulse sales	55	63
To attract new customers	50	77
To create a low price image	45	37
To create a one stop shopping image	45	43
To create a convenience image	40	43
To pull traffic away from food stores with competing products	30	23

Source: Lebhar-Friedman Research

How To Insure A Successful Grocery Program

Grocery product buyers for both drug and discount chains say that it's very important for nonfood buyers to "take the responsibility" for their grocery programs. By this they mean the responsibility of insuring sell throughs with aggressive ads and in-store merchandising programs.

John Gamble, who helped build a successful food program for Canada's leading drug chain, Shoppers Drug Mart, says ads are critical for insuring the success of groceries in nonfood stores, because it's through ads that chains establish both their commitment to the category and their competitive strengths.

What Matters Most to A Buyer Deciding To Advertise A Grocery Product

Motivator "very important" in their decision to advertise a grocery item	% of respondents rating this factor as	
	Discount chains	Drug chains
Past history of product sell throughs	85%	80%
Dollars allocated to consumer advertising	85	63
Manufacturers' willingness to support retailers' promotions	75	77
Availability of co-op dollars	55	47
Is the product in a strong growth category	50	40
Market share	40	50
Frequency of use	40	53
Availability of bonus packs	40	27
% of households using the category	30	33

Source: Lebhar-Friedman Research

The Most Popular Displays For Groceries In Non-Food Stores

Display Vehicle	Discount chains	Drug chains
End caps	95%	93%
Counter/floor displays	65	93
Tables	60	53
Cut cases	55	67
Baskets	55	57
Bulk displays	10	—
All other	10	3

Percentages exceed 100% due to multiple responses
Source: Lebhar-Friedman Research

At K mart, management uses ads to target new customers who may not be traditional K mart shoppers. Executive vp Larry Parkin says groceries give K mart a chance both to bring in new users and to bring back regular shoppers more often.

K mart usually has some kind of grocery item, packaged grocery as well as candy, snack and soft drink, in all its rotos and circulars.

For its part, Wal-Mart may not advertise the category as much, but it will be just as competitive, sometimes even more so, with in-store displays. The endcaps in the chain's permanent food sections are always stocked with values, frequently labeled "unadvertised specials." Wal-Mart also uses plenty of case stacks and floor displays of the bulkier groceries, such as 25 lb. bags of dog food.

Non Foods' Average Percent Sell Through For Select Advertised Groceries

(% of product sold through during ad period)

Category	Mean % sell through	
	Discount chains	Drug chains
Candy & gum	80.5%	78.8%
Snacks, chips, cookies, cakes	82.8	76.1
Soft drinks	85.8	82.7
Bottled waters, juices, etc.	89.2	73.6
Beer, wine and liquor	65.0	67.5
Packaged groceries (tuna fish, etc.)	84.9	71.8
Pet foods	88.0	77.7
Household cleaners	78.1	70.6
Paper products (toilet tissues, etc.)	80.8	70.6
Food wrap	80.8	71.3
Garbage bags	80.7	72.2

Source: Lebhar-Friedman Research

Non Foods' Average Margin For Select Advertised Groceries

Category	Mean Gross Margin For Advertised Products	
	Discount chains	Drug chains
Candy & gum	14.9%	14.7%
Snacks, chips, cookies, cakes	3.1	15.1
Soft drinks	5.9	6.6
Bottled waters, juices, etc.	5.0	11.1
Beer, wine and liquor	19.0	11.3
Packaged groceries (tuna fish, etc.)	5.4	10.6
Pet foods	9.0	10.6
Household cleaners	9.8	15.0
Paper products (toilet tissues, etc.)	2.5	12.8
Food wrap	8.3	13.3
Garbage bags	11.0	14.3

Source: Lebhar-Friedman Research

Juices are one of the fastest growing segments in beverages and nonfood chains are getting in the action.

Finding Homes For Juices & Bottled Waters

Drug and discount chains are promoting juices and bottled waters to build traffic, and most chains now have permanent homes for the category.

The juice category is up 20% in dollar sales this year, many buyers report.

Most of the growth is coming from promotions. The major nonfood chains are promoting juice more this year, and they're also buying in heavier quantities as they build on the successes of earlier years.

Right now, most nonfood chains are averaging about an ad a month on juices, and some are running twice a month.

The emphasis is on the major brands, the large sizes for the heavy user and the 10- and 16-oz. size for cooler shoppers.

Ocean Spray, Welch's and Gatorade are top sellers in nonfood stores, especially in the large sizes, which are usually merchandised warm. Hi-C is also doing well, and some chains have had good success with Del Monte.

Gatorade is also turning up in coolers that are in many drug chains today as is Veryfine, the No. 1 single-serve brand in the country with an estimated 25% national share.

In the last year, K mart has promoted about one juice brand a month. Wal-Mart has done about 14 a year. Eckerd, Longs, Pay 'n Save and Thrifty have each done about 12 juice ads this past year, or about one a month.

However, Pay 'n Save is currently focusing in primarily on snacks and candies in its latest ads.

Walgreen also concentrates heavily on snacks, soft drinks and candies in its circulars, but still has been averaging about six juice ads a year.

As a traffic builder, buyers said juice is relatively profitable, usually averaging from 7% to 15% margins when promoted. Everyday, the warm juices usually have about a 25% margin and the cold single-serve juices can average as much as a 60% margin.

More permanent displays

Today, there are also more chains carrying juices everyday, at least some of the top brands and usually including Welch's, Ocean Spray, Gatorade, Hi-C and in the drug chains, Veryfine.

As one buyer put it, the permanent allocations evolved directly from the successes of the promotional programs.

"We found that juice really does sell well to our customers," he said, "and we found that it did all right all year. It was not just a seasonal item.

Carrefour Fights Rezoning

(Continued from page 2)

our store will benefit the citizens of Brookhaven and the surrounding communities. Carrefour intends to pursue its claims vigorously."

Because of delays stemming from the legal wrangle, Carrefour built its first U.S. hypermarket in Philadelphia. Following the adverse decision, Carrefour closed its U.S. headquarters in Secaucus, N.J., and transferred operations to its Philadelphia store. It operates a total of 115 hypermarkets in France, Brazil, Argentina and Spain and plans to open units in the near future in Taiwan.

In a complaint filed in U.S. District Court in Brooklyn, N.Y., Carrefour claims that local merchants brought "vindictive political pressure" to bear on town officials because they feared competition.

It also claims that the rezoning is inconsistent with the town's own zoning plan and that the town board failed to comply with state environmental review requirements.

Bradlees Promotes 6 Managers to VPs

BRAINTREE, Mass. — Bradlees promoted six directors and regional managers to vice presidents. Norman Chalphin, formerly Eastern New England regional manager, becomes vp, director of stores; Randall Dickerson, formerly staffing director, becomes vp, field personnel; Richard Dow, formerly regional manager, Mid-Atlantic, becomes vp, New Jersey/Philadelphia; John Kelsey, previously regional manager, New York, New Jersey and Philadelphia, becomes vp, Eastern New England; Everett Lancor, formerly regional manager, Western New England, becomes vp Western New England; and John Macklin, director of store operation, becomes vp, store operations.

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Top Chains Report Healthy '88 Sales

(Continued from page 1)

a 6.5 percent increase in sales (from all operations), while Wal-Mart's sales (from all operations except its Hypermart USAs) were up 29.4 percent, hitting the $20 billion mark for the first time. Target's sales were up 19.0 percent.

Wal-Mart was also the big winner in earnings, with a 23.9 percent rise in operating income for the year. The discounter's net earnings gains outpaced the sales increase as the bottom line went to $837.2 million, up 33.4 percent from $627.6 million. The net profit ratio went up slightly to 4.1 percent from 3.9 percent.

Sears topped the $30 billion mark for the first time, posting a 7.8 percent sales increase to $30.3 billion from $28.1 billion the previous year. Operating income fell 76.9 percent to $300 million last year from $1.3 billion the previous year.

K mart's operating income hit $1.24 billion, up 6.2 percent from $1.17 billion. Net income growth also ran ahead of its sales gain, jumping 16 percent to $802.9 million from $692.2 million. Its net profit ratio increased marginally to 2.9 percent from 2.7 percent, but still lagged behind Wal-Mart.

JCPenney suffered a 3.3 percent decline in sales but held on—with room to spare—to the No. 4 spot among discounters and mass merchandisers. Penney also reported a 15.7 percent loss in operating income. While the chain offered no official explanation for the loss, the discontinuance of such big-ticket departments as home electronics, sporting goods and photographic equipment was undoubtedly a factor.

Woolworth reported $8.1 billion in '88 sales, up 12.7 percent from $7.2 billion. Operating income outpaced sales, rising 9.4 percent to $444 million from $406 million. Net income hit $288 million, up 14.7 percent from $251 million.

Target recorded $6.3 billion in sales last year, a 19.0 jump over the previous year's $5.3 billion. Operating income lagged behind sales, rising by only 5.6 percent to $341 million from $323 million in 1987.

Montgomery Ward, which went private last year, only reported sales figures—a 4.3 percent increase to $4.7 billion from $4.6 billion in 1987.

Toys "R" Us hit the $4 billion mark for the first time, posting a strong 27.5 percent increase from $3.1 billion. Operating earnings also rose an impressive 23.9 percent to $429 million from $346 million. Net earnings were even better, up 31.4 percent—outpacing the sales increase—to $268 million from $204 million.

Fiscal Year-End Results of Top Discounters, Mass Merchandisers

Chain	Sales (In Billions) 1988	Sales (In Billions) 1987	Percent Change	Operating Income (In Millions) 1988	Operating Income (In Millions) 1987	Percent Change
Sears	$30.3	$28.1	7.8%	$ 300	$1,300	(76.9%)
K mart	27.3	25.6	6.5	1,244	1,171	6.2
Wal-Mart	20.6	15.9	29.4	1,325	1,069	23.9
JCPenney	14.8	15.3	(3.3)	970	1,151	(15.7)
Woolworth	8.1	7.2	12.7	444	406	9.4
Target	6.3	5.3	19.0	341	323	5.6
Montgomery Ward	4.7	4.6	4.3	NA	NA	—
Toys "R" Us	4.0	3.1	27.5	429	346	23.9
Ames	3.4*	2.1	59.8	NA	58	—
Service Merchandise	3.1	2.7	13.7	121	45	172.4
Fred Meyer	2.1	1.8	12.2	66	61	7.9
TJX Cos.(Zayre)**	1.9	1.6	16.9	142	118	20.1
Marshalls	1.8	1.6	9.3	NA	NA	—
Hills	1.7	1.5	10.3	19	34	(45.1)
Circuit City	1.7	1.4	27.4	NA	89	—
Caldor	1.6	1.5	4.8	50	56	(10.7)
Rose's	1.4	1.3	7.7	27	29	(8.0)
Venture	1.3	1.2	7.9	81	70	15.7
PACE	1.3	0.94	35.2	14	7	97.2
ShopKo	1.1	0.92	19.6	61	54	13.7

Private companies whose figures were not available—or companies whose fiscal years end in months other than December or January—have not been included.

NA-not available

Percentages are based on actual numbers before rounding.

Sales: includes all divisions of company (i.e., Western Auto included in Sears figures, Sam's included in Wal-Mart figures, Pay Less NW included in K mart figures, etc.).

Operating Income: profit/loss from continuing operations before income taxes and extraordinary items.

**Figure includes $1.05 billion of Zayre discount stores sales for 4th qtr.*

***Figures represent results from 'continuing operations,' meaning TJX Cos., for the entire fiscal year. Zayre Corp. didn't report sales from its discount store division for the 39 weeks ended Oct. 29, 1988, but reported a $78.5 million loss from the discount store division for the period.*

Source: DSN *research*

House Passes Min. Wage Bill, Senate Showdown Expected

(Continued from page 1)

ed to override a Presidential veto. Democrats who steered the bill through the House described it as a compromise with the administration.

The committee version sent to the floor called for a $4.65 hourly rate and did not include a sub-minimum "training wage" for newly hired workers as proposed by Bush. The full House added a modified training wage provision allowing employees to be hired at $3.35 per hour for 60 days—but only if they have no previous work experience.

President Bush's plan would allow employers to pay the training wage to all new workers for up to 90 days.

The House bill would raise the current $3.35 hourly rate to $3.85 on Oct. 1, to $4.25 a year later, and then to $4.55 on Oct. 1, 1991. A Senate committee has approved legislation calling for a $3.65 wage rate and no training wage. A showdown in that chamber is expected later this month.

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Vol. 28, No. 7

April 3, 1989

Wholesale Clubs merchandise juices through mass displays. Their customers usually buy by the case load or shrink packs.

Growth in Non-Alcoholic Beverages
(billions of dollars)

Category	1986	1987	% change	Average Annual compound growth rate (1980-85)
Bottled water	$ 0.8	$ 0.9	12.5%	15.0%
Fruit Juice/Drinks	11.2	11.6	3.4	12.4
+ Soft Drinks	36.7	38.7	5.6	9.5
Tea	1.4	1.3	(5.4)	6.4
Milk	11.5	11.8	2.0	2.6
Coffee	6.0	5.3	(11.5)	(1.5)
+ + Other	0.9	0.9	(0.3)	4.5
Total Non-alcoholic beverage consumption	68.5	70.5	2.9	7.4
Total beverage consumption	122.6	125.4	2.3	7.4

+ Carbonated and powdered soft drinks
+ + Includes powdered breakfast beverages, non-alcoholic cocktail mixes, cocoa, herbal teas and infant juices.

Source: Impact databank

So we simply deciced that if it's going to do well, we might as well carry it 52 weeks a year."

Wal-Mart and K mart have given juice space in their warm beverage departments for about a year now. Target also carries the category everyday and Venture is considering adding it as a permanent program.

Thrifty carries juices everyday in its approximately 400 stores with c-food sections, as does Walgreen in its approximately 500 stores with c-food departments.

In both the drug and discount chains, the 64-oz. size sells best because it is favored by value-conscious heavy users. Buyers noted with equal conviction that aseptic packs do "extraordinarily well"—especially as a back-to-school promotion, and the 48-oz. size shows up often as a multi-priced promotion, three for $5, for example.

One buyer said the multi-priced approach was excellent for increasing turns and generating a higher ticket sale.

Bottled Water

The bottled water category is growing fantastically in nonfood stores, buyers said. Gallon jug wines and seltzers seem to be the strongest growth areas, up 40% to 50% over last year, they added.

Sparkling waters, which have been in most nonfood chains longer than the jug waters and the seltzers, are also doing well off a larger base. Most buyers estimate their sales are up between 12% and 15%, but some chains report growth as strong as 30%

Right now, many of the major drug chains are carrying bottled waters in select stores on a permanent program. Most drug chains also have single-serve bottled waters next to their soft drinks and juices.

Walgreen carries jug water in select regions like Florida. Eckerd has an optional program for permanent everyday jug water, and right now the category is in about 30% of all Eckerd stores.

Walgreen, Rite Aid, Eckerd and Osco all have some programs for sparkling water, and they all stock the category in at least some markets. Perrier is usually the preferred brand.

In the discount and warehouse club industries, almost all the major chains have the category at least in some stores.

K mart, Wal-Mart, Target, Venture, Price Club, Price Saver, Costco, Sam's and B. J.'s Wholesale Club all report good experiences with the category.

Most buyers said they just started working with the category about a year ago, and were attracted to it because it is currently the fastest-growing beverage segment.

Although the gallon jugs and sparkling waters may not appeal to as many people as soft drinks, the base of users is growing. People who consume bottled waters are generally heavy users, drinking them several times a day and often at the exclusion of drinks like pop or alcohol.

"Bottled waters are a growth area that we want to expand as fast as possible," Peter Agostino, the senior buyer of convenience foods and beverages at Eckerd, said.

Eckerd now has bottled waters in more than 30% of their stores, and

Fruit Juice and Drinks Consumption Trends

Trend	1970	1986	1987	% change ('86 vs '87)	Average Annual Compound Growth Rate (1980-85)
Millions of gallons	1,470	2,547	2,561	0.5%	2.1%
Share of total beverage market	4.0	5.7	5.6	n.a.	n.a.
Per-capita consumption (millions per person)	7.21	10.56	10.52	(0.4)	1.1

Source: Impact databank

Fruit Juice Consumption By Flavor Type

(share of market trends)

Flavor Type	1970	1986	1987
Orange	56.4%	63.8%	63.1%
Grapefruit	7.4	5.0	4.8
Other citrus	0.5	0.3	0.3
Total Citrus	64.2	69.0	68.1
Apple	6.9	16.5	17.1
Grape	6.4	4.1	4.2
Vegtable	12.3	5.1	5.1
Pineapple	4.4	1.7	1.7
Other non-citrus	5.9	3.6	3.8
Total non-citrus	35.8	31.0	31.9
Total fruit juice	100.0%	100.0%	100.0%

Source: Impact databank

that will be rolled out as fast as possible.

Perrier is Eckerd's best-selling sparkling water. Best sellers in jug water vary by region. In Florida, for example, Zephyr Hills is very strong, but in Texas, folks prefer Ozarka.

In Indiana, Bob Fahrenback, who buys foods and beverages for the 12-unit Keltsch Brothers drug chain, reports that seltzer is his fastest growing segment in bottled waters, and that both New York Seltzer and Chicago Seltzer have been particularly strong. Sources for K & B Drug in Louisiana report the same trend.

Fahrenback, who has been selling seltzers for about a year, is averaging about a 30% growth rate.

Perrier, on the other hand, has been in his stores about five years, and is averaging about a 10% growth rate.

"We sell more seltzers than we sell regional brands of soft drinks," he says.

Even warehouse clubs carry bottled waters. Such sources as Ken Kirwin, vp-merchandising at B. J.'s, said they appeal to both the small business customers who patronize warehouse clubs and consumers.

Drinks that combine bottled water with juice are also continuing to do well in the nonfoods market.

Sun Dance, the new bottled water/juice combinaton drink from Stroh's, is still doing very well in nonfood stores. Several chains have started to carry the brand everyday, and more chains this year are promoting Sun Dance, especially around Halloween, Thanksgiving and Christmas/New Year's.

Right now Osco and Thrifty both carry the Sun Dance line everyday in their upscale beverage sections near Perrier and Calistoga.

Revco and Target are also planograming the line, and Venture and Wal-Mart are considering adding Sun Dance to their permanent list.

Many of the drug chains with cold vaults also have Sun Dance in their coolers next to Coke, Pepsi, Gatorade, Veryfine and other juices. Buyers said they like its margins because food chains don't promote it very often.

Others also like the everyday retails on the four-pack which usually range between $2.69 and $2.79, but one buyer, who isn't carrying Sun Dance in his everyday program, said that while he "loves the brand, I'm afraid the everyday price point may be too high for my stores."

Stroh's, however, has been building demand with a strong advertising campaign that includes coupons and free sampling. Some discount stores have even done some in-store sampling of Sun Dance, and it seems like the programs are paying off.

One buyer said that Sun Dance doesn't have the same large base of users as soft drinks, "but people who do use it are very brand loyal," he said, "and I'm not having any trouble getting repeat sales."

Diet Nutrition Shakes

Another new opportunity is emerging in beverage sales: packaged nutritional shakes that can be used either as diet aids or as meal supplements.

Carnation has done a good job in food stores with its Instant Breakfast shakes, and Slim Fast has done well in drug stores as a diet aid, but this year, buyers are telling FM there is something new on the market: Nutra Rich shake.

Nutra Rich, made by NutriBevco in Middletown, N.Y., is positioned as both a nuitrition supplement and a diet aid.

Austin and Genovese Drug, both in the New York area, were among the first to feature Nutra Rich in off-shelf displays.

Drug Emporium is stocking it in both the northeast and Georgia, and Revco and Osco are testing it, both in their diet aisles and in off-shelf displays.

Sources for these chains said that initial movement was just fair because sales depended solely on the displays, but one in January, described the movement as "brisk" and "strong."

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Target Jazzes Up Promo Attack

New Marketing VP Taps Celebrities For Store Openings, Special Events

'My momma showed me . . . the place to shop around. Ya, shop around.'

—from "Shop Around," by Smokey Robinson

MINNEAPOLIS — Demonstrating the style of its new vice president for marketing, John Pellegrene, Target is using The Judds, a country music duo singing their hit song, "Shop Around," to promote the reopening of its former Gold Circle stores in the Southeast.

In addition, the $6 billion discounter will feature the name of Antarctic explorer Will Steger on a signature line of winter sports gear, much like K mart took on Martha Stewart for domestic products and Jaclyn Smith for apparel. Target is also co-sponsoring Steger's 1990 expedition to the Antarctic.

John Pellegrene

Target's radio and TV spots to promote the chain's South Atlantic store openings will feature singers Naomi and Wynonna Judd. Target is also sponsoring explorer Will Steger's trek to the South Pole.

Among recent celebrity promotions, Target last month featured The Jets, an MCA recording group, in radio and TV spots (see apparel marketwatch, page 32). In a promotional tie-in, the seven singers in the group wore Gitano clothing in the TV spot, filmed in Hawaii to resemble a music video.

Last Christmas, Target featured rhythm and blues singer Aretha Franklin in its radio and TV spots (see *DSN*, Nov. 21, 1988, page 1). For print advertising, Target used Keshia Knight Pulliam, who plays Rudy on "The Cosby Show."

That is the kind of promotional image Pellegrene has been stamping on Target since he transferred nine months ago from its parent company, Dayton Hudson.

(Continued on page 97)

Brand 'Boutiquing' Blasts Off

Ames, Venture, Stuarts Pick up on Caldor's Shop Concept

By Kenneth M. Chanko

NEW YORK — The upscaling of apparel merchandise presentations at discount stores is spreading like wildfire, and image-conscious vendors are fanning the flames.

Having registered spectacular early results from its shop-within-a-store at a Long Island Caldor unit in East Patchogue, N.Y., The Gitano Group is going forward with more women's wear shops at other discounters and mass merchants. By the end of July, there will be 25 to 30 Gitano women's wear shops at, among others, Ames, Venture and Montgomery Ward.

Caldor will add the 1,500-square-foot to 1,800-square-foot Gitano shops in 10 more units in Long Island, northern New Jersey and southern Connecticut, in time for the back-to-school season.

"The sales results have exceeded our expectations in East Patchogue and for back-to-school we are entering a diversified testing mode," said Marc Balmuth, Caldor's president. "If successful, we'll roll it out chainwide."

Gitano's shop concept at the discounter level is only the most sophisticated and visible of many changes being implemented in apparel departments across the country.

(Continued on page 31)

K mart's Sports Giant Steps to Plate

Ceo Charles White comes out swinging on opening day at K mart's Sports Giant. (DSN photo)

By Richard C. Halverson

MADISON HEIGHTS, Mich. — After a delay of several months, K mart opened earlier this month the first test unit of Sports Giant, its new sporting goods membership warehouse club.

The second of two test stores will open in mid-May in nearby Livonia, Mich.

K mart built both 50,000-square-foot stores just a few miles from its Troy, Mich., headquarters. But like Office Square, K mart's entry in the office supplies warehouse derby, Sports Giant will report to San Antonio, Texas, headquarters for Builders Square.

In a bid to keep overhead low, Sports Giant and Office Square both share computer systems and support services, such as personnel and construction, with Builders Square, K mart's home center subsidiary.

Frank Denny Jr., son of Builders Square

(Continued on page 97)

IMRA to Light Up Orlando

With a retail scene nearly as hot as its often oppressive weather, Orlando is a lot more than just the site of America's most popular family entertainment mecca. This central Florida vacation center is one of the fastest growing cities in the United States and discounters here operate some of their most up-to-date stores. *DSN* explores discount retailing in Orlando and previews the International Mass Retail Association's 1989 annual convention, see page 35.

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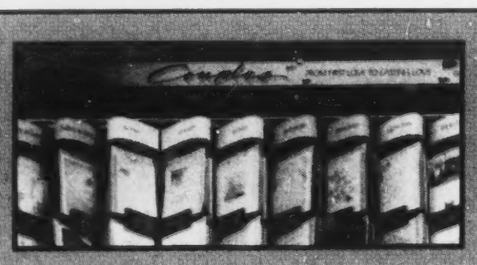
Home Products: Office Depot On a Fast Track — page 55



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MARKETWATCH

Carrefour Plans to Build Despite Zoning

PHILADELPHIA — Carrefour has filed a plan to build a hypermarket in Brookhaven, N.Y., despite the township's recent rezoning of the 68-acre site from commercial use to only residential and office use. The French company, without citing a reason, has asked the township to issue an exemption to the new zoning designation for the site, which Carrefour bought in 1986 for $18.2 million as the home for its second store. Community opposition to Carrefour promoted the zoning change. Still pending in federal and state courts are Carrefour's $25 million lawsuits to overturn the zoning change.

Witmark Opens Western Michigan Unit

GRAND RAPIDS, Mich. — Witmark will open a 35,000-square-foot showroom in Battle Creek in September as its ninth store in western Michigan. The unit will co-anchor the Minges Brook Mall with Target. Separately, Witmark has added 10,000 square feet to its Muskegon, Mich., store, now 35,000 square feet, and the North Grand Rapid unit, now 40,000 square feet. Each has also been remodeled to the cataloger's mass display format for housewares, juvenile, sporting goods and consumer electronics.

The Wholesale Club Expands in Midwest

INDIANAPOLIS — The 18-unit Wholesale Club launched its 1989 expansion program by opening a store in Appleton, Wis., earlier this month, with a unit in Duluth, Minn., to follow next week. St. Paul, Minn., Grand Rapids, Mich., and Youngstown, Ohio, will get Wholesale Clubs later this year.

NACSM Officials Meet with President Bush

HAUPPAUGE, N.Y. — The National Association of Catalog Showroom Merchandisers, represented by its legal counsel Richard B. Kelly (left) and president Jean S. Coticchio (right), was among a group of trade and professional associations that met with President Bush and other administration officials to discuss issues of concern to small business. The Small Business Legislative Council coordinated the meeting last month in the White House.

Judge Sets Trial Dates for HSN, GTE

ST. PETERSBURG, Fla. — Home Shopping Network's $1 billion punitive damage claim against GTE has been reinstated by Judge Howard P. Rivers, the Pinellas County judge who is handling the suits between the two firms due to go to trial June 5. Judge Rivers had first ruled that there wasn't enough evidence to support the punitive damage claim portion of HSN's suit. HSN is also suing GTE for $500 million for lost profits, alleging GTE knowingly provided poor phone service that prevented shoppers in 1986 and 1987 from calling HSN to buy merchandise. GTE is countersuing HSN.

Ward Buys Stake in Office World

CHICAGO — Montgomery Ward, the mass merchant that is fast remaking itself as a specialty store retailer, has purchased a substantial equity interest in Office World, the young discount office supply megastore chain. Financial details of the agreement were not released but Office World's president and chief financial officer Stanley A. Berg said that the Ward investment, coupled with an additional investment by Office World's current venture capital backers, more than doubles the company's current capitalization. Office World, with four stores in the Chicago area and a fifth slated to open in June in the Skokie/Niles, Ill., area, may take space for office supply superstores within select Montgomery Ward stores in the Chicago area and elsewhere. Office World's aggressive expansion plans call for the addition of 10 additional stores in 1989 in Chicago, Milwaukee, Minneapolis/St. Paul, Detroit and other markets. Said Bernard F. Brennan, chairman and chief executive officer of Montgomery Ward: "The investment in Office World is part of our strategy of further expanding into specialty retailing in an aggressive way. Office World superstores are complementary to our value-driven specialty store strategy."

FOR THE RECORD

Denta Plus is an electrosonic denture cleaner introduced at the Housewares Show. An article on new products at the show (*DSN*, Feb. 6) incorrectly described the device.

Senate Joins House in Approving $4.55/Hour Minimum Wage Rate

WASHINGTON — Congress continued on its minimum wage collision course with the Bush administration as the Senate approved an increase of $1.20 in the national wage floor, bringing it to $4.55 per hour.

The Senate legislation, which parallels a similar measure passed earlier this year by the House, sets the stage for a key congressional confrontation with the White House over domestic policy.

Although President Bush has endorsed a modest increase in the current $3.35 federal minimum wage, he has threatened to veto any legislation raising the hourly rate above $4.25. Significantly, neither the House nor the Senate approved their minimum wage bills by the two-thirds margin necessary to override a Presidential veto.

The approach backed by the administration calls for raising the hourly pay floor in three annual 30-cent stages until it reaches $4.25 in 1992. In addition, the President is demanding that Congress move to soften the "disemployment" effects of such an increase by approving a new sub-minimum "training wage" for new workers.

As explained to Congress by U.S. Secretary of Labor Elizabeth Dole, the administration's training wage plan would permit employers to pay newly hired employees the current $3.35 wage rate for their first six months.

In contrast, the proposal pushed through Congress by House and Senate Democrats calls for three 40-cent hourly increases, beginning Oct. 1, 1989, plus a watered-down version of the administration's training wage scheme. Under the congressional approach, the sub-minimum would apply only to workers who have never been employed before. Additionally, the training wage rates would be limited to the first 60 days on the job.

According to critics of that plan, however, such a training wage would be "next to useless." The only workers who would qualify for the sub-minimum rate are those who

(Continued on page 98)

Marshalls Buys 10-Store Branden's

Will Reopen Units as 'Superstores' with Expanded Selections

WOBURN, Mass. — Marshalls, the nation's largest off-price apparel chain, will purchase the 10-store Branden's chain and open the units as Marshalls prototype "superstores."

The sale of the Branden's division by Dayton Hudson Corp. is to be finalized next month, according to Marshalls officials. While the acquisition price was not disclosed, Marshalls will be purchasing all assets of Branden's, exclusive of merchandise. Members of the Branden's management team are being considered for positions at the refurbished Marshalls stores.

Six of the 10 Branden's stores—each approximately 50,000 square feet, larger than the average Marshalls unit—will be reopened by the fall. Five of the six stores are in Florida—South Miami, North Miami, Kendall, Jacksonville and Plantation—and the other is at the Town Center in Atlanta.

Marshalls' new and larger—or what the company calls "superstore"—units feature not only expanded departments, but several departments not found at traditional Marshalls.

All of the 318 Marshalls stores have misses and junior sportswear, dresses, Women's World (plus sizes), petites, lingerie, accessories, infants' and children's, big and tall, men's wear, footwear, domestics, jewelry and giftware departments.

The specialty department format of the superstores also feature, in addition to the above, women's contemporary, maternity, men's collection, suits, sportcoats and blazers, young men's, boys' team shops, fine jewelry and luggage departments.

"The new stores are located in markets where Marshalls has a strong presence with nearly 35 stores," said John Ingram, senior vice president for real estate, who added that "Marshalls is well accepted by the consumer in Florida."

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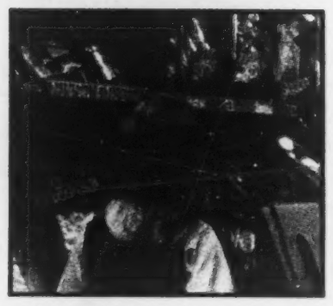

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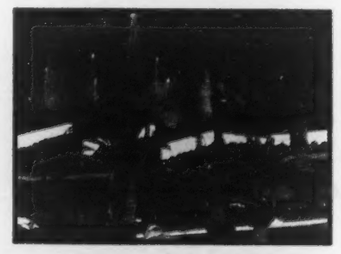

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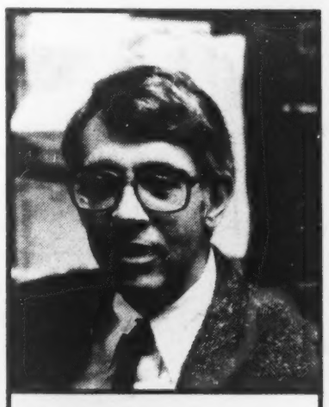
TAKING STOCK

ELECTRONIC RETAILING

Telaction Shorts Out; Interactive Lives On



ARTHUR MARKOWITZ
Senior Editor

Street smart merchants know there aren't any retail failures; there are only success stories or learning experiences. They also know that one retailer's "failure" is another merchant's success.

This wisdom applies to Telaction, the interactive cable TV shopping service that JCPenney just disconnected. So, what's the lesson to be learned from the Telaction experience?

Simply put: interactive teleshopping works, consumers used Telaction to buy merchandise. Telaction "failed" today, but if you look down the road you can see consumers, somehow and in some fashion, using TV to interactively shop for products they want, when they want to do so.

Telaction's "failure" wasn't due to the interactive concept but to JCPenney's wavering in its support of the venture once Telaction's key backer within the retailer exited the corporation. Other executives couldn't envision how JCPenney could be a "home" to the service.

If Telaction shows that interactive teleshopping works in at least the Chicago marketplace, then a recent Massachusetts Institute of Technology study provided more support for the concept. The study was sponsored by GTE, which wanted to learn more about the interactive shopping idea for its own Main Street shopping service. Diana Gagnon, who headed up the probe, reported at an Institute of Electric and Electronic Engineers consumer conference that study participants "overwhelmingly preferred" the interactive Telaction service over other electronic shopping formats.

The report's optimistic outlook was that "it appears that consumers may be ready for interactive video shopping. However, the features and design of these systems are vital to their success. If the correct formats are found, interactive shopping just may be the format of the future."

Gregory J. Liptak, president of Jones Intercable, which aired Telaction on its Chicago cable system, offered a view from that perspective. He warned the National Cable Television Association last year that interactive teleshopping "makes subscribers" lives easier, TV more usable and a basic cable subscription more valuable. If cable is ever to live up to its promise, we must go the interactive route."

Some practical insights on interactive shopping's potential were offered earlier this year at a Direct Marketing Association seminar by Donald Gordon, who headed up Telaction's consumer marketing effort. One benefit is that this format can provide retailers with specific marketing information by demographic groups, what products they looked briefly, or in detail, and what they bought.

An "electronic store," he added, can list items in multiple areas, vastly improving chances to sell a product. The data needed to help close a sale can be controlled, with more information offered for high-end merchandise and a few details provided for basic and lower priced goods.

Gee Bee Parent Files Chapter 11; Cites LBO Debt Servicing Costs

JOHNSTOWN, Pa. — A flood of costs to service leveraged buyout debt has inundated Glosser Brothers, operators of the Gee Bee discount store and Dollar Bargain closeout chains.

LBO debt service of $10 million to $11 million a year was "a big factor" behind Glosser's decision to file for Chapter 11 bankruptcy protection last month, said president and chief executive officer Thomas Zurilla.

In 1987, the latest year for which audited figures are available, debt service for a 1985 LBO dwarfed net profits of $1.6 million on sales of about $212 million.

Management took the chain private in 1985 in a $65 million buyout, Zurilla said, and owns 52 percent of the company.

Glosser still hasn't obtained audited results for the fiscal year ended Jan. 31, 1989, but Glosser sustained a "substantial loss" on flat sales of $212 million, Zurilla said.

Soaring interest rates, with the prime rate jumping to 11.5 percent over the past year, was another factor leading to bankruptcy, he said.

On the same day of filing, March 25, Glosser closed without notice one of its newest and largest stores, the 84,000-square-foot unit it had opened in Manassas, Va., in September 1987. Some 48 employees lost their jobs at the Washington, D.C., area store.

Glosser is also considering closing eight to 10 other Gee Bee and Dollar Bargain stores in weeks to come, Zurilla said. Of the 10, eight reportedly are Dollar Bargains.

Problems with merchandising Dollar Bargains units, a closeout chain founded some four years ago, was another factor leading to bankruptcy, Zurilla said.

Glosser also intends to shutter its flagship store, a conventional department store opened 82 years ago in downtown Johnstown.

Glosser now operates 23 Gee Bee Discount Stores and 44 Dollar Bargain units, as well as the department store. In a restructuring that began last August, Glosser closed eight Dollar Bargain units and fired 50 to 75 employees, Zurilla said, reducing total employees to about 2,500.

In its U.S. Bankruptcy court filing in Pittsburgh, Glosser Brothers listed assets of $70.6 million and liabilities of $63.7 million. In addition, G.B. Holdings, a corporation formed to take Glosser private, listed assets of $6 million and liabilities of $19.4 million.

In a 1987 interview, former chairman Alvin Glosser told *DSN* that chains such as his had to expand in order to fend off larger chains them.

Now, Glosser is looking for someone to buy it with the help of investment bankers Bear, Stearns & Co., Zurilla said. He blamed, in part, unprofitable store expansion for its financial woes.

Electronic Retailing Forum Features K mart's Jones

SAN FRANCISCO — Russell Jones, director of marketing support for K mart, will discuss the discounter's electronic retailing activities next month at Touche Ross' Electronic Retailing 89 conference.

The conference will be held May 30 through June 1 at the Atlanta Marriott Marquis Hotel, Atlanta.

Jones will describe K mart's involvement with PRODIGY, the interactive computer shopping and information service, and with in-store merchandising technology at the conference's luncheon Wednesday, May 31.

A Thursday morning breakfast briefing on PRODIGY will be presented by Harry E. Smith, the service's vice president of product marketing.

Other participants include representatives from retailers like Sears, Herman's Sporting Goods, Neiman-Marcus, B. Dalton and Avon, teleshopping services like QVC, Shop TV, U.S. Videotel, CompuServe, Comp-U-Card and Host Gift USA, and technology suppliers like Video Cart, Check Robot, Knogo North America and Bell Atlantic.

Presentations will cover interactive and broadcast home shopping, in-store merchandising, advertising and promotion, fashion testing, and technology overviews.

Information and reservations are available from Teri Elniski, Conference Director, Touche Ross. Phone: (415) 781-9570.

JCPenney Pulls Plug on Telaction

By Arthur Markowitz

SCHAUMBURG, Ill. — JCPenney has disconnected Telaction, its interactive teleshopping service, dealing a setback to the concept which is now being pursued by just one company, GTE, through its Main Street project.

Telaction was closed down April 7 when JCPenney couldn't interest any other company to invest in the further development and proposed national rollout of the cable shopping service. The retailer spent about $106 million to develop Telaction during the past six years.

The mixed reading on Telaction's closing was summed up by Gary H. Arlen, editor-publisher of *Electronic Shopping News*, a monthly newsletter that tracks electronic retailing developments. He said JCPenney's move "casts a pall" on interactive teleshopping, but "lots of other companies in the next few years will try to find a way to bring interactive shopping to fruition as this type of retailing seems to serve some need for both retailers and consumers."

Telaction executives feel they have achieved a major accomplishment despite JCPenney's terminating the service and the prevailing impression among security analysts and the media that the venture was a failure.

"We did something never done before—proved that consumers would shop interactively via cable TV without the need for special equipment in the home," said Mary Dale Walters, Telaction's manager of public relations.

She pointed to the high rate of shopping—13 percent of the homes with access to Telaction made purchases—the $60 average sale and the growing trend for viewers to shop several times a month as examples of consumer's acceptance of the teleshopping concept.

Telaction, at its demise, was available to 30,000 homes on two cable systems in seven Chicago suburbs, up from 4,000 households when it was launched early last year in one Chicago suburb. But its reach was far short of what JCPenney had projected when Telac-

(Continued on page 98)

Retailer/Vendor Commitment to Quick Response

Commitment/ Measurement Categories	Stage I No Involvement		Stage II Aware of Importance		Stage III Initiate Pilot Plan		Stage IV Roll Out Program		Stage V Complete Program	
	Retailer	Vendor	Retailer	Vendor	Retailer	Vendor	Retailer	Vendor	Retailer	Vendor
Bar Code Marking	2%	0%	13%	5%	15%	15%	31%	37%	39%	43%
Use EDI for Communication	6	0	13	8	35	42	42	41	4	9
Bar Code Case Marking	8	5	31	20	19	27	34	27	8	21
Third Party EDI Catalog to Receive Bar Codes	13	13	17	24	33	25	31	23	6	15
Establish Three-Way Partnership	10	12	29	24	19	36	40	22	2	6

VICS surveyed retailers and vendors at its Chief Executive Officers Conference in Dallas last month on where each company stood in its use of the Quick Response technologies: bar coding, EDI transmission, case marking, use of third party EDI catalogs to receive UPC numbers and finally, establishment of a three-way QR program. The figures, which are the percentages of the respondents, show that companies' involvement with QR grows as they learn how to use the technologies. See story page 79.

Source: VICS

Toymaker Shipments Slip—Sales, Profits Grow

NEW YORK — Toy retailers and vendors were heartened by news that the flagging industry turned itself around last year.

Toymaker profits reversed directions from a combined loss of $120 million for publicly traded companies in 1987 to combined profits of $120 million in 1988, reported the Toy Manufacturers of America.

Shipments of toys in 1988 dipped 0.5 percent in unit volume, TMA reported, although dollar volume increased 3.9 percent to $8.55 billion from $8.23 billion in 1987. The figures indicate an increase in unit prices from a combination of expected inflationary increases on similar toys as well as customers' willingness to buy higher ticket toys.

Retail sales rose to $12.75 billion last year from $12.5 billion in 1987.

Retail figures exclude soaring sales of electronic toys, the big toy news for 1988. For the first time, TMA included in its annual report on estimated sales a separate category for electronic hardware and games: $1.89 billion at wholesale for 1988.

Conditioned in part by the sellout at many chains of $100 Nintendo action sets, customers appear ready once more to buy big ticket items, said Peter Hayes, chairman and chief executive officer of Child World, which bought the Susie Scribble doll. Sales of $89 and $99 talking dolls did poorly last year, Hayes said, in favor of $4 Mutant Ninja Turtle action figures.

"You have to sell a lot of Ninja Turtles to equal one $89 doll," said Hayes.

Nintendo, which declined to attend the Toy Fair this year, cast a long shadow over the event, even in absentia.

Sales of traditional toys piggybacked on Nintendo last year, Hayes said. "When we were in stock with Nintendo, other toy sales increased. When we were out of stock with Nintendo, other sales declined."

On the other hand, Nintendo is catching the blame

Toy Industry Shipments, 1988

Category	Dollar Sales (In Millions) 1988	Dollar Sales (In Millions) 1987	Percent Change	Unit Sales (In Millions) 1988	Unit Sales (In Millions) 1987	Percent Change
Infant/Preschool	$ 867	$ 776	11.7%	$ 166	$ 167	(0.6%)
Dolls	966	867	11.4	121	119	1.7
Plush	687	1,174	(41.5)	99	193	(48.7)
Figures	523	702	(25.5)	115	173	(33.5)
Guns	80	96	(16.7)	13	12	8.3
Vehicles	1,276	971	31.4	213	189	12.7
Ride-Ons (Excl. Bikes)	608	632	(3.8)	30	30	0
Games & Puzzles	950	830	14.5	205	193	6.2
Activity Toys	1,382	1,138	21.4	510	447	14.1
All Other Toys	1,207	1,041	15.9	220	177	24.3
Total Industry	**$8,546**	**$8,227**	**3.9%**	**$1,692**	**$1,700**	**(0.5%)**
TV Video Games*	1,890	NA	—	52	NA	—

Toymakers think they have recovered from their 1987 industry slump. In wholesale dollar value, toy shipments rose 3.9 percent last year to $8.55 billion from $8.23 billion in 1987. Unit shipments fell fractionally, however, indicating that higher price points produced the increase in dollar volume. Retail sales rose to $12.75 billion in 1988 from $12.5 billion. Both wholesale and retail dollar volumes exclude video games (hardware and software), a renewed category that logged $1.89 billion worth of wholesale shipments last year. Although industry leader Nintendo views itself as a consumer electronics vendor and spurned February's Toy Fair in New York, the Toy Manufacturers of America have recognized the video game threat to conventional toy sales by starting to track video game volume for the first time.

NA—not available
**New category for 1988*

Source: Toy Manufacturers of America

Toy shipments recovered in '88 from the previous year's slump. Plush, however, saw shipments fall by 48.7 percent.

from Huffy Bicycles for part of an expected decline in total industry bicycle sales to 10 million this year from 12 million in 1988. Kids are staying home playing video games more and riding bikes less, a Huffy representative said.

At this year's fair, a new talking doll, Susie Scribbles, bears signs of becoming a big hit—at a suggested retail of $129. Its inventor, Henry Garfinkel of Edison, N.J., claims to have written $200 million in orders during the fair for the doll, which can talk in five languages and draw programmed sketches.

At that figure, sales of Susie and her male counterpart, Sandy, would equal the entire estimated 1988 sales of downsized Coleco and its Cabbage Patch line.

Coleco, after selling its East Hartford, Conn., headquarters, slashing headquarters payroll to 140 from 666 and closing two factories, has cut enough fat to turn a profit in 1989 at the $200 million sales level, said Brian Clarke, president and chief executive officer. "Everybody's become more bottom-line focused. Previously, toy manufacturers were focused on sales volume.

"Such prudence is healthy until the industry recovers," Clarke added, even though it has tempered creativity. Companies are taking fewer high-flying risks, he said.

Before Coleco can emerge from Chapter 11 bankruptcy, however, it must persuade creditors to go along with its reorganization plan filed last month. Creditors are objecting to plans to pay them in Coleco stock, rather than cash, Clarke said.

In good news for lovers of Teddy Ruxpin, Worlds of Wonder has found an investor, Eli Jacobs, to purchase it in bankruptcy. Another of 1988's problem children, WOW announced the buyout deal the day before the Toy Fair closed, but declined to disclose terms of the deal.

The proposed management team of WOW includes Franklyn S. Barry Jr., former president of Fisher-Price.

WOW expects to file its reorganization plan shortly and emerge from Chapter 11 as early as this May.

The problem category for 1988 turned out to be plush toys. Unit shipments of musical, electronic and traditional plush fell almost in half, by 48.7 percent, TMA reported. Another troubled category was action figures, with shipments down by a third in 1988, 33.5 percent.

The big gainers in shipment terms were activity toys, up 14.1 percent; vehicles, up 12.7 percent; and all other, up 24.3 percent. The all other category consists of foam sports, water and pool, audio/visual, children's furniture, electronic learning aids and sports activities.

Sears Tests New Market with High-End Power Tool Brands

CHICAGO — In a move into hardware brands, Sears plans to handle professional quality power tools from Skil and Ryobi—and possibly Black & Decker and Makita.

Sears may introduce the new power tool brands in two Indiana test stores as early as mid-May, a Ryobi marketing source said.

In addition, Sears plans to start testing Dutch Boy paint in Philadelphia and Chicago stores.

Makita still is negotiating with Sears to take on a 10-sku line of its tools, said a marketing representative on duty at its Home Center Show booth.

One of the 10 items is a Makita cordless drill that retails for $129 to $139, he said. All of the power tools are high-end products designed for tradesman, he said. They wouldn't be duplicates of Craftsman's consumer-level tools.

"Sears will appeal to customers it hasn't been serving with Craftsman products," he said.

A Skil rep at the show confirmed that Sears will take on about eight sku's from its line, including Skil saws, priced in the $90 to $175 range.

Sears is adding an 11-sku line of Ryobi sanders, drills and screw guns, marketing director James Ippolito said. They will appear on shelves possibly as early as mid-May in Indiana Sears stores in Merrillville and Castleton Square outside of Indianapolis.

Castleton Square was one of the stores where Sears tested its Brand Central concept in appliances and electronics.

If the test goes as expected, Sears will put brand power tools into 40 more stores by Christmas and into 90 to 100 more by next spring, Ippolito said.

The four brands won't directly compete, item for item, Ippolito said. Instead, each will fit into individual product and price niches.

Ryobi, Itasca, Ill., recently bought the power tool division of Singer Companies, which supplies Sears with its private label Craftsman consumer-level, hand-held power tools. Skil provides Sears with Craftsman label stationary tools, such as bench saws.

Sears still is considering whether to take on specialty tools from B&D, said Tom Sulentic, vice president, special markets. The type of tool might be its right-angle drill that retails for about $200. B&D provides Sears with Craftsman label garden tools, such as hedge trimmers.

About half of Sears' 824 hardware departments already carry B&D's burglar alarm system, the Home Protector, Sulentic said.

A store level hardware source in Merrillville said that B&D and Skil tools are coming and that Sears still is negotiating with Makita.

Next month, Sears will begin revamping and expanding the hardware department at Merrillville. "It will be torn up for a while."

At the Castleton Square store, a hardware source said she was unaware of new tool brands to be added. But in paints, Red Devil, Rust-Oleum and Olympic Stain products recently arrived without notice, she said. "They came in as a surprise."

The store already carries a B&D shop vacuum, she said.

Sherwin-Williams, which produces Dutch Boy paint, refused to comment on the move into Sears. But a show representative said the introduction will begin with stores in Philadelphia and Chicago. The timing of the introduction is undetermined.

Sears declined to comment on what brands it plans to introduce when it begins testing what it calls a "power format" in paint and hardware.

More Retailers Making the QR Connection

NEW YORK — The commitment of discounters and other retailers to Quick Response has been growing, spurred by the increasing awareness of the costs and benefits of this technology to both merchants and manufacturers.

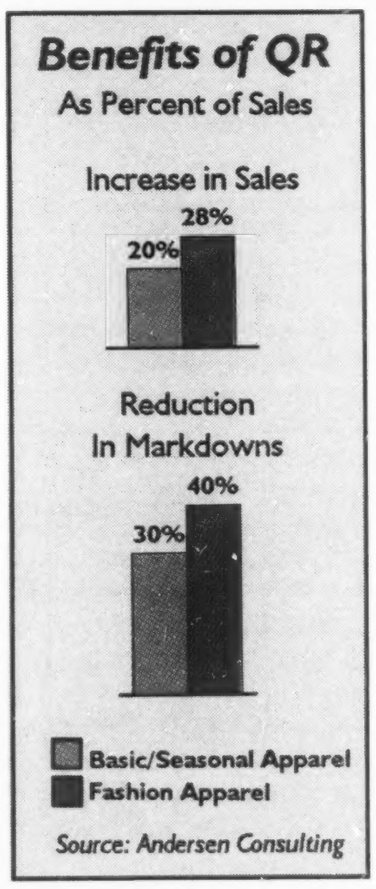
This fact is evident from a number of surveys on retailers' involvement with Quick Response and from presentations by merchants and manufacturers last month at two conferences in Dallas on this technology.

But while retailers are becoming more committed to QR, they often start out implementing this technology haphazardly and hesitantly. This changes over time to a planned approached as retailers' become more educated in executing QR.

The same seems to hold for manufacturers.

At its Chief Executive Officer conference in Dallas last month VICS (Voluntary Interindustry Communications Standards) surveyed retailers and manufacturers on where the attending executives thought their companies were in realizing Quick Response.

The responses showed that retailers' and manufacturers' commitment levels grew after companies initiated pilot programs testing the various QR technologies. Once a firm learned about a specific technology such as electronic data interchange, it had a strong commitment to implement that QR move.



Retailers' projected bar code scanning and EDI use can be gauged by a recent study Touche Ross conducted for the National Retail Merchants Association.

Its key findings included retailers' intention "to dramatically increase" their point-of-sale scanning in the next two years from about 20 percent of the respondents to more than 75 percent.

Retailers also plan to "significantly increase their use of EDI in the future," but "the major barrier preventing the widespread implementation of EDI is lack of vendor support."

More than 50 percent of the retailers scanning use the price lookup feature of this technology. The study found that 57 percent of the discounters currently scanning use PLU.

Just as important retailers expect to use bar codes for a number of non-POS functions. These areas include warehouse functions, shelf stocking purposes and inbound/outbound shipping, the study noted.

EDI, meanwhile, is seen as speeding up the reorder cycle to obtain just-in-time deliveries. VICS ANSI X.12 will be the favored EDI protocol, with third party "mailbox" service cited as the implementation approach.

VICS, meanwhile, sponsored a recent Andersen Consulting study on general merchandise manufacturers current and future use of UPC and EDI. It concluded that "the majority of the vendors who implemented EDI or UPC did so without an understanding or even an awareness of the costs or benefits of QR."

The extent of manufacturers involvement with the two basic QR technologies was evident from that study. It reported that about 23,300 vendors or 36 percent of the total number of domestic general merchandise vendors mark their goods with UPC. The majority of them (61 percent) UPC mark over 50 percent of their goods.

Ten percent of the vendors surveyed exchange data with retailers using EDI to some degree, with 5 percent using the VICS EDI standard.

Within two years, another 21 percent of the manufacturers anticipate exchanging data electronically. This increased manufacturer involvement with EDI should defuse retailers' charge of limited vendor support for EDI and result in more merchandising sending orders and receiving shopping notices using this technology.

The most common function among manufacturers using VICS EDI is to exchange purchase orders (71 percent) and invoices (38 percent).

The future also looks bright for another QR technology that is starting to come into widespread play—shipping container marking.

The Andersen study found that 29 percent of the vendors are placing bar coded labels on containers, with about half of the manufacturers labeling between 75 percent and 100 percent of the packages they ship.

While QR use is growing, the main impact, so far, is among the larger retailers and manufacturers. The two Dallas meetings sounded a common theme: everyone should jump on the QR bandwagon to reduce costs, stay competitive and even remain in business. The second motif was the need for retailers, manufacturers and vendor suppliers to form a partnership, as only this three-way relationship will result in QR working to the fullest, enabling all the players to benefit.

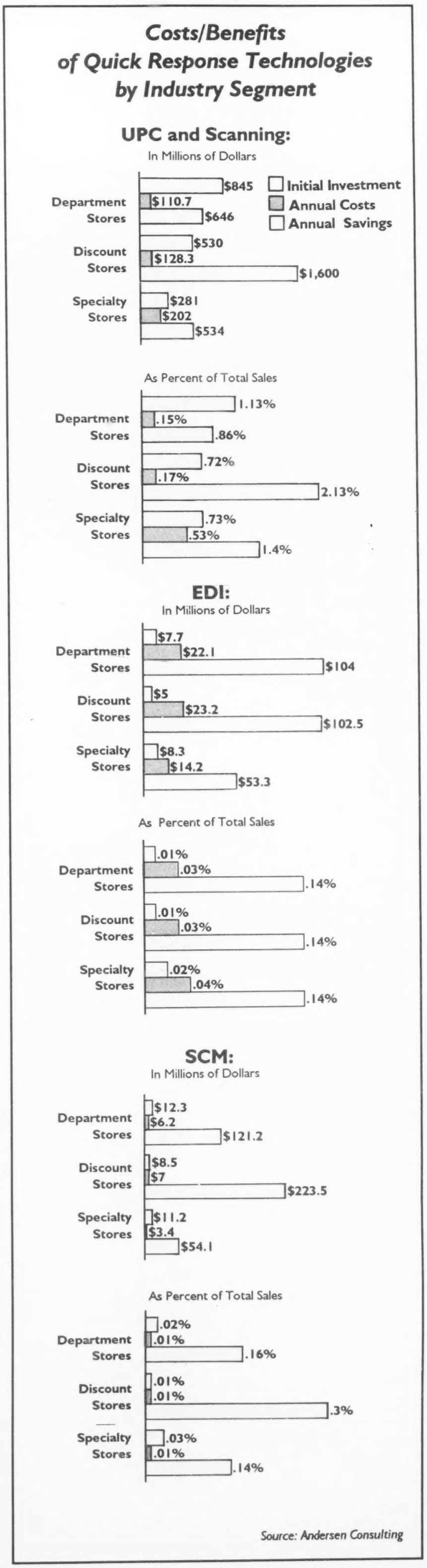
The two VICS studies, one each analyzing the costs and benefits of implementing QR for retailers and for manufacturers, were designed to overcome fears about this technology. They were distributed at both Dallas conferences as VICS' core education drive (see charts this page for retailer information).

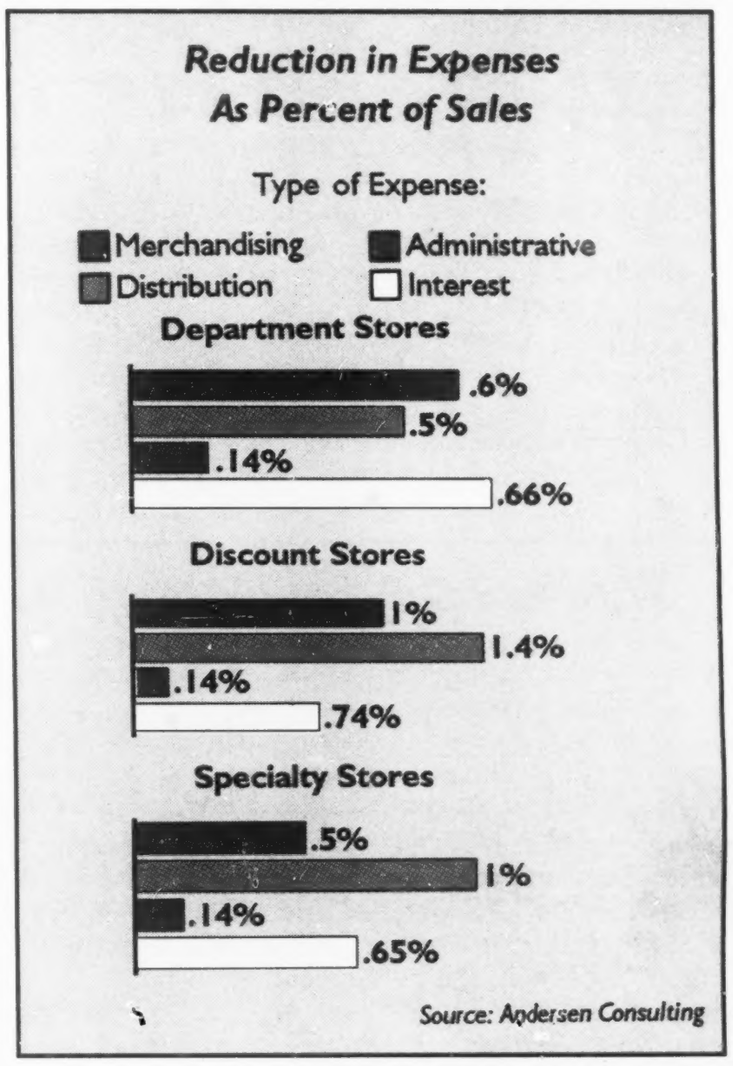
Kurt Salmon Associates carried out VICS' study on QR's impact on manufacturers. That report shattered the widely held belief that QR is good only for giant companies, concluding that all vendors, no matter their size, "gain similar strong paybacks." It also warned that when the coming seven-year switch to QR is finished, 70 percent of the firms will take over 100 percent of the consumer products market, a massive $20 billion-plus transfer of market share to QR-driven vendors.

Milliken & Co. has been involved with QR for years—its president Roger Milliken is considered the father of QR—and the firm's experience was cited as an example of the benefits that can accrue to other companies.

Andy Vecchione, director of QR, told the QuickResponse 89 conference, co-sponsored by VICS and AIM (Automatic Identification Manufacturers Inc.), that this technology enables the textile manufacturer to keep retailers in-stock on the best selling merchandise while reducing the need to mark down slow moving items.

He said retailers using QR could increase sales by 25 percent while they reduced their inventory by the same amount. Sales increases of 100 percent to 125 percent aren't unusual, he added.





The VICS-sponsored study, "Costs and Benefits to Retailers of Implementing Quick Response and Supporting Technologies," conducted by Andersen Consulting, reports results in either of two ways. The dollar figures represent the total cost for an entire retail segment, while the percentage figures depict the cost as a percentage of sales for an individual company.

JCPenney Pulls Plug on its Interactive TV Shopping Venture

(Continued from page 4)
tion was first publicly detailed in February 1987 by its president Stuart MacIntire, who said the service would be available to 125,000 Chicago households by the 1987 holiday season.

Walters reported that 77 percent of the 30,000 households had looked at Telaction, 40 percent of the viewers had signed up to access the service, and the 13 percent buying merchandise was a higher ratio than the purchase rate for mail order catalogs.

About 60 percent of the purchases were for groceries supplied by food wholesaler Nash-Finch and 40 percent for general merchandise, the ratio Telaction had projected. But the non-food portion was much higher during the recent holiday season, she added.

Trade observers contend that Telaction's closing raises questions about the viability of interactive cable shopping and even of the entire interactive shopping concept. They pointed to Main Street still being in a test stage in 100 homes in the Boston suburb of Newton, at least a year behind a development schedule that called for it to be in 500 homes in three test markets by now. Main Street is due to be tested in Cerritos, Calif., some time this year when the Apollo CableVision system starts operations, but has dropped plans for a test in the Philadelphia market.

They also cite the past failure of interactive computer ventures like Viewtron and the limited number of people that are subscribers to the three major current computer services. These are PRODIGY, which is basically a shopping application now in national rollout with about 50,000 subscribers, and two information services that also provide some shopping options: CompuServe, with 500,000 members, and GEnie with about 50,000 subscribers.

GTE "didn't feel it was appropriate to comment" on Telaction's closing, a spokeswoman said. "We are very pleased with Main Street's results so far," she added, but declined to elaborate.

A Prodigy Service Co. spokesman said, "we're disappointed to hear about Telaction. We feel the more companies that are involved in this [interactive selling], the more people will know about it."

JCPenney pulled the plug on Telaction when Kidder, Peabody and Co., "after an extensive search for partners" didn't find any company willing to provide additional equity capital for Telaction.

JCPenney vice chairman Robert B. Gill said, "our original intent was to provide start-up capital" to develop Telaction, but that "continued operation and expansion would be too costly for JCPenney to undertake on its own." The retailer needed about $50 million to launch Telaction in other markets, *Electronic Shopping News* reported.

The retailer sought a partner, rather than a buyer, for Telaction as it wanted to retain an interest in what it viewed as a potentially profitable venture. JCPenney didn't want to look foolish in case it sold Telaction and then another owner made it a success, one source said.

Gill said Telaction's closing "doesn't reflect a disenchantment with home shopping via cable. The JCPenney catalog division now features selected merchandise through Shop TV under a restructured agreement." That teleshopper has been relaunched as the JCPenney Television Shopping Channel (see *DSN*, April 3, pg. 1).

JCPenney plans to retain Telaction as an internal project at its Dallas headquarters, maintaining a working model in case a company wants to license or buy the service, Walters said. Telaction was based on technology devised by and licensed from Cableshare, a Canadian company. But Telaction had developed more advanced, lower-cost technology which was due to be exploited for its proposed expansion, she added.

JCPenney can retain its exclusive right to use and/or license Cableshare's technology for retailing worldwide by paying the Canadian firm either a royalty based on Telaction's gross revenues or an undisclosed minimum fee, with payment due by the end of this year. Cableshare executives said the retailer hadn't indicated whether it would retain its rights to Telaction.

Trade sources said Telaction fizzled because of a combination of factors: JCPenney's failure to gain commitments from cable operators to carry the service while it was being developed, poor first generation technology and the high costs of overcoming these twin obstacles.

Walters disputed this interpretation of Telaction's closing, contending that the service "had a strong relationship with cable companies since November 1987 when Ed Merlis became head of its cable affiliation division. No operator wanted to be the first to air the service."

An executive with one cable operator carrying Telaction said that no one wanted to be on the "leading edge," as there wasn't any way to know if the technology would work and if viewers would buy products offered through the service.

Walters said that since Telaction started, cable operator interest had grown and it had recently obtained commitments from two other Chicago systems that would have added 135,000 households.

The first generation technology, she noted, "worked and was ahead of anything else in the market." Telaction has developed even more advanced technology and was looking into further improvements using digital transmission and TV signal compression that would have reduced costs and made the service more efficient and attractive to viewers, she added.

Cable operations provided Telaction free to its subscribers. Walters declined to detail Telaction's charge to retailers or what it paid cable firms to carry its service beyond noting that "what we had to pay to the cable operations had to be competitive with what they received from other home shopping services."

The cable systems didn't receive any percentage of sales made through Telaction, but rather flat rates based on subscribers enrolling for the service and for purchases. "It means that the cable companies will receive a higher return in the first year they carry Telaction than in subsequent years," she said.

Best Revises Region Setup

(Continued from page 3)
by a 40-person team composed of three different executives, district hard lines merchandisers, district jewelry merchandisers and regional merchandise managers, that visited the 193 showrooms and 31 jewelry specialty stores in their region.

About half of the 40 executives were offered other posts within Best while the others were terminated, receiving severance pay and outplacement assistance.

Now overseeeing the field merchandising activities of the store managers and district managers are two field merchandising directors, a newly created post. They coordinate merchandising, display, advertising, sales planning, distribution and communication activities between the stores and the corporate departments handling these functions.

The posts were filled by Dan Younkman, who covers the Northern half of the country, and Patrick Henkel, who covers the Southern portion. This geographic division ensures that each field merchandising director works with stores in every region.

With the elimination of the hard lines, jewelry and regional merchandising posts, the store managers now report just to district managers. The district realignment includes grouping Best Jewelry stores for the first time with the showrooms, merging Kansas City, Mo., and St. Louis into one district and creating a third district for Los Angeles.

Lee Hawks, senior vice president of operations, said the changes make managing the districts easier. It's faster to fly from Kansas City to St. Louis than it is to drive between many of the Southern California stores, he said.

The showrooms and jewelry were grouped together so that the two types of stores can have greater access to each other's merchandising expertise, he added.

The regional realignment includes a 16-unit jewelry store-only district in the East region. This district contains just the heavy concentration of jewelry stores in the Washington, D.C., area.

The regional changes involve closing the former Midwest region, shutting its headquarters and reapportioning the stores among the new West and Central regions. San Francisco and Dallas continue as headquarters for these two regions as does Richmond for the East region.

Bob Thompson, who headed the former Midwest region, was appointed vice president of operational support. He supervises retail administration, operations administration, presentation and field merchandising.

Best's new store operating structure includes the Eastern region with nine districts encompassing 61 showrooms and 21 jewelry stores; the Central region with 60 showrooms and six jewelry stores in seven districts; and the Western region, 10 districts with 72 showrooms and nine jewelry stores.

Off-Price Mall to Open Opposite Carrefour

(Continued from page 3)
foray into the Northeast.

Reading China & Glass, Reading, Pa., is another of the anchors. A fixture in the Reading outlet mall industry, Reading China will compete directly with Carrefour in housewares brands such as Farberware and Anchor Hocking. It also offers Lenox, Royal Doulton and Noritake china and Waterford crystal at claimed discounts of up to 75 percent.

Another discount anchor is Ports, an off-price apparel and soft home chain owned by Boscov's, a highly promotional department store chain also based in Reading.

In addition, Sears and JCPenney each will help anchor the mall with a surplus store offering closeout merchandise at discount prices.

Other major stores of at least 20,000 square feet include: apparel off-pricer T.J. Maxx and Bed 'N Bath, specializing in off-price linens and soft home.

In sporting goods, Modell's will offer new competition from its mall store, as will The Original I. Goldberg, a Philadelphia chain concentrating on hunting and camping equipment.

Factory outlet stores will include Manhattan, Gitano and Benetton, said Howard Biel, executive vice president of the mall developer, Western Development Washington, D.C.

About a third of the stores will be factory outlets, a third specialty off-price retailers and a third service retailers such as food and entertainment, Biel said.

Such competition in general merchandise "will be healthy for both Carrefour and Franklin Mills," Biel said.

Franklin Mills will draw an estimated 15 million to 16 million visitors per year, he estimated. They will be "serious shoppers" who will generate "complementary traffic."

Carrefour "pioneered" the retail use of the land, once a 325-acre racetrack, when it opened its hypermarket in February 1987, Biel said.

Sales for Carrefour have limped along at an estimated $50 million to $60 million annually, whereas analysts estimate it needs sales of about $100 million to break even.

Carrefour obviously expects a symbiotic relationship with such discount complexes because it signed two deals to occupy retail space next to Western's off-price developments. In Philadelphia, it bought 36 acres for its hypermarket from Western. Carrefour and Franklin Mills share a common entrance road and only their parking lots separate them.

And in Brookhaven, N.Y., where Carrefour bought 69 acres for what was to be its first American hypermarket, it had a deal to sell half of it to Western for an strip center of factory outlet and off-price specialty stores.

The deal fell through last November, however, when the Brookhaven zoning board rezoned the land for office and residential use, barring retail use. In February, Carrefour sued the Long Island town in an attempt to get the courts to reverse that decision (see *DSN*, April 3, page 2).

For additional retail use, Western also sold 19 of its original 325 acres for a mall specializing in home improvement and decor right next to Franklin Mills and Carrefour. Hechinger, the home center chain based in Landover, Md., will anchor that mall.

Franklin Mills is the second off-price mall Western has developed. In 1985, it opened Potomac Mills, a 1.2 million-square-foot mall south of Washington. Noting its success, Biel said Western plans to expand it to 1.8 million square feet by late 1991.

And, Western is building an even bigger off-price mall, Sawgrass Mills, west of Fort Lauderdale, Fla., Biel said. It will provide 2 million square feet when it opens in the late summer of 1990, he said.

DISCOUNT STORE NEWS
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Smaller Chains Defy the Odds

Exclusive Report Spotlights Regions, Hot Cities and Chains—page 67

Discount Store News®

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U… that can be easily converted to a SuperCenter (above), Wal-Mart plans to open 38 metro market stores. (DSN photo)

Wal-Mart's Prototype Paves Way for Metro Market Drive

By Richard C. Halverson

BENTONVILLE, Ark. — Wal-Mart, in yet another move away from its small-town, rural roots, has developed a new 114,760-square-foot prototype aimed at metropolitan markets.

The prototype comes designed with 20,000 square feet of expansion space, for a potential total of almost 135,000 square feet.

Wal-Mart could easily convert that size store to its SuperCenter concept, which offers both groceries and an expanded line of general merchandise. Wal-Mart's Washington, Mo., SuperCenter is 126,000 square feet.

The new prototype will be painted the SuperCenter colors of gray, red and blue, instead of the beige and blue of a traditional Wal-Mart, said Margaret Gilliam, retail analyst for First Boston. Of the 155 stores Wal-Mart plans to open this year, 38 will be the new size prototype, she said.

(Continued on page 28)

K mart Eyes Payback On New Technology

By Arthur Markowitz

TROY, Mich. — K mart plans to upgrade its core information network with new in-store computers as it attempts to squeeze greater profits out of its billion dollar-plus investment in the latest retail technology.

K mart Corp. chairman Joseph E. Antonini has set specific benefits that the discounter must achieve from its heavy expenditures in technology. That investment includes computers and such other equipment, and systems such as scanning, satellite communications, electronic data interchange (EDI) and automated distribution centers.

Part of K mart's billion dollar-plus investment will finance the installation of 20,000 in-store computers to process the new retail systems such as scanning and EDI.

The discounter's core system, called KIN (K mart Information Network), currently uses IBM Series 1 computers as the brains to operate the many retail automation systems found in K mart stores, and to communicate that information to the data center at the Troy headquarters. These include a wide range of retail functions, from UPC bar code scanning to layaways.

The computers to be used for what will become KIN II will be chosen later this year, said David M. Carlson, senior vice president, corporate information systems. KIN II is expected to be phased in from 1990 through 1994. KIN I's hardware "has limited capacity and it's hard to put new applications into the system," he explained.

Antonini said the retailer expects to spend more than $500 million by 1990 to install nearly 20,000 computers in the

(Continued on page 225)

A Scanner at Every Wal-Mart Checkout—see page 181

Sears Everyday Pricing Paying Off?

Skeptics Seek More Evidence of Long-Term Turnaround

Although Sears racked up a 15.4 percent gain in comparable store sales last March, some analysts expect momentum to taper off in the coming months. (DSN photo)

By Don Longo

CHICAGO — Two months after reducing prices on 50,000 items in its 824 stores, Sears remains an enigma to both competitors and most retail industry observers.

In recent weeks, the world's largest retailer:

- Reported strong first quarter sales and earnings gains;
- Eliminated 800 management positions after restructuring its retail group into six vertical businesses;
- Opened its first two Sears Ltd. "intercept" stores, designed for urban and suburban markets where Sears is underrepresented;
- Greatly expanded its highly successful Brand Central superstore-within-a-store concept to more than 100 Sears stores in seven states.

But, as the retail behemoth struggles to regain the market share it lost to discounters and specialty stores over the past de-

(Continued on page 226)

Recruiters from T.J. Maxx interview former Zayre employees at a one-day job fair sponsored by Ames.

Ames' Job Fair Softens Effects of Retail Merger

FRAMINGHAM, Mass. — In part to maintain the good will of the 1,500 Zayre headquarters employees who are losing their jobs, Ames is spending $300,000 to help them get new ones.

The efforts included holding a daylong job fair last month that drew about 700 Zayre employees and personnel representatives of some 50 potential employers.

Of 1,749 employees who worked at Zayre headquarters when Ames acquired the chain last Oct. 28, Ames offered

(Continued on page 225)

Largest IMRA Convention Issue

MARKETWATCH

Best Installs Satellite Communications

RICHMOND, Va. — Best Products is installing a $2 million satellite communication system after testing the technology at showrooms in East Baltimore, Md., Cutler Ridge, Fla., and Southcenter, Wash., last fall. The AT&T Tridom SKYNET satellite service will transmit data from Best showrooms to an AT&T shared hub facility in New York, which will then send the data over high-speed land lines to the cataloger's data processing center in Ashland, Va. Best may install a private hub in Ashland if traffic volume warrants the step, said Dan Rubin, Best's vice president of management information systems.

Teenage Shoplifting Found Common

NEW YORK — Shoplifting has become a rite of passage for many high school students, according to a survey conducted by Prism Asset Protection Consultants for *Parade* magazine. The study of 200 students found that 71 percent knew someone who had shoplifted and nearly one-third said they had personally done so. It estimated that one-third of high school students, slightly more girls than boys, are likely to shoplift at least once before graduating.

Office Place Acquires Related Business

AURORA, Colo. — The Office Place, a privately held six-unit office supply superstore chain, is strengthening its position in Colorado. It has acquired Pencils Inc., a five-unit, $5 million Denver commercial and retail office products dealership. The move follows The Office Place's recent purchase of a 49 percent stake in Frontier Business Products, a Colorado office equipment dealership. The terms of neither deal were disclosed.

SportsTown Opens 2 Texas Units

ATLANTA — SportsTown has opened two sporting goods warehouses in Texas to push its count in the state to three, with five more in Georgia. One SportsTown was a 55,000-square-foot unit in a new market, Dallas. The other was its second store in Houston, at 62,000 square feet the chain's largest unit. Previously, SportsTown units were about 50,000 square feet.

Hasbro Makes Bid to Acquire Coleco

PAWTUCKET, R.I. — Hasbro, the nation's largest toy maker, plans to acquire rival Coleco, which is in bankruptcy, for $85 million plus warrants that would allow Coleco creditors to buy 1 million shares of Hasbro stock. For the deal to proceed, Hasbro, supported by Coleco's unsecured creditors, has to persuade Coleco to halt plans to remain independent through a Chapter 11 reorganization, and then get approval of Coleco's bankruptcy judge. Coleco's Chapter 11 filing in July 1988 followed the roller coaster ride of its 1985 hit, Cabbage Patch dolls. Cabbage Patch sales soared to $600 million in 1985, then plunged to $250 million in 1986, when Coleco lost $111 million.

IBM Offers EDI Software Service

WHITE PLAINS, N.Y. — IBM has become a major third party vendor in the burgeoning electronic data interchange field. It is now offering Expedite Data Interchange software that translates proprietary EDI formats to such standard forms as ANSI X.12. using any of the company's computers that employ Systems Application Architecture. The new software complements the various EDI services now provided by the IBM Information Network.

Videotex Industry Forum Set for June

ROSSLYN, Va. — The Videotex Industry Association will sponsor its fourth annual business development forum June 19 to 21 at the San Francisco Fairmont Hotel. The conference, SERVICES '89, Building Mass Markets, will examine the state of the videotex field and the services, including home shopping, that companies are providing to consumers. Information is available from VIA, 1901 North Fort Myer Drive, Suite 200, Rosslyn, Va. 22209. Phone: (703) 522-0883. Fax: (703) 522-0884.

Kohn Recovering After Heart Attack

HOPKINTON, Mass. — Stuarts Department Stores president and chief executive officer Harry Kohn Jr. will not be in attendance at the International Mass Retail Association convention following a heart attack he suffered on April 13.

The prominent discount industry executive remained in the hospital until April 24, when he was well enough to return home. Kohn was expected to return to work at the 21-store regional discounter shortly before the May 13 IMRA convention, according to the company.

Circuit City Continues Fast Growth

Sales, Earnings, Margins Increase Despite Flat Market

RICHMOND, Va. — Keyed by its entry into new markets like Orlando, Fla., Las Vegas and Reno, Nev., Sacramento and two other California cities, Circuit City racked up record sales and net profits for fiscal 1989.

The consumer electronics chain based here predicted that growth for this year will total at least 25 percent, as it enters new markets like Miami (in early March) and Tampa, Fla., Philadelphia, San Diego and Phoenix, Ariz.

The fiscal 1989 growth came in spite of a relatively flat CE market nationwide. Circuit City's strategy of dominating existing markets resulted in some degree of cannibalization of sales from existing stores, said Richard L. Sharp, the company's chairman.

Despite growing competition, Circuit City also increased its gross profit margin to 29.2 percent of sales, Sharp noted. This is at least partially attributable to a shortage of stripped-down, low-end televisions and VCRs, which led to increased sales of higher-margin, enhanced feature models.

Sales for the year rose 27 percent to $1.72 billion, and net earnings shot up 38 percent, to $69.5 million. Comparable store sales increased a strong 7 percent.

The chain opened 20 new superstores last year, which contributed greatly to sales and earnings figures, and continued to replace brown goods-only stores with more fully-stocked superstores.

Stuarts May Get 2 of 3 Mars Units

NORTH DIGHTON, Mass. — Mars Stores is seeking bankruptcy court approval to sell two of its stores to Stuarts Department Stores, and one to Capital Enterprises.

Additional store locations might be sold as part of its restructuring under Chapter 11.

Stuarts offered to assume the leases, fixtures and inventory of Mars stores in Athol and Salisbury, Mass. The Hopkinton, Mass.-based discounter offered $1.3 million for the leases and fixtures, according to Mars' attorney, Nathalie Martin of Boston-based Fine & Ambrogne. Stuarts also offered to buy the store inventory for approximately 60 percent of its retail value, she added.

The third unit on the block is in Pelham, N.H. According to Martin, Capital Enterprises of Leominster, Mass., has offered over $700,000 for the unit. However, Capital president Barry Seldman would not comment on the pending deal. Capital operates closeout stores under the name Capital Resources.

The Pelham store was closed by Mars prior to its filing for Chapter 11 protection March 1. A store in Ludlow, Mass., was also closed during the first week of April, leaving Mars with 12 stores still in operation.

As far as any other unit sales, Martin said, "There are no other offers right now . . . There might be a couple of other stores up for sale eventually, but that will be up to operations."

Martin also noted that the sales and profits contributions of each Mars unit are still under review. "We're running numbers on various combinations of stores to see which would be best [for the future of the chain,]" she said.

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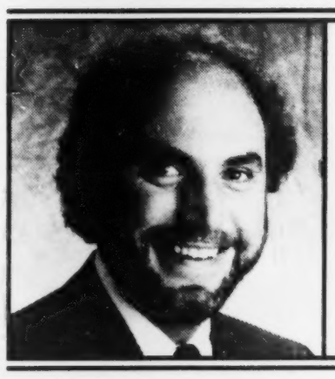
The Long and Short of BIG and Small

The BIG syndrome. It's powerful. It's dominant. It's contagious. It's destructive. It strikes without warning. It's painful and difficult to cure. Several retailers have it. Sears is suffering from it. Wal-Mart is thriving on it. Zayre was destroyed by it.

The small syndrome. It can also be powerful, viable and destructive. Several retailers have it. Mars is suffering from it. Ann & Hope is thriving on it. Danners was destroyed by it.

BIG or small? How BIG is too big? How small is too small? Is BIGGER better? Is smaller smarter?



TONY LISANTI
Editor

The debate goes on. The controversy continues. In today's business environment, it's praise the BIG guy, pity the small guy.

And so it seems that the BIG continue to get stronger; the small continue to shrink. Everyone wants to be BIG—until they grow up.

They even made a movie about the BIG syndrome. Tom Hanks, playing a 12-year-old boy, wished he was big. His wish was granted—small mind, big body. And it was great for a while. But in the end, he realizes—what some execs often realize—that bigger wasn't better.

Often, the big guys get the bulk of the publicity. Sears, K mart and Wal-Mart dominate headlines both in the business and consumer press. Rarely do Yellow Front, Grandpa Pigeons, Ann & Hope, Jerry's, Pamida or many others grab the banner headlines in *The Wall Street Journal* or major city newspapers or even *DSN*. But maybe they should. Maybe they warrant more coverage—and more recognition.

Readership studies conducted by *DSN* on a quarterly basis reveal that when readers (both retailers and manufacturers) were asked what could be done to improve *DSN*, the top response in 1988 was more coverage of smaller, regional retailers. This special issue does just that, beginning on page 67. It analyses the nine census regions, a key market in each, and a regional retailer that is successfully battling the big guys.

It's true that the big retailers have more clout with suppliers, developers, brokers, politicians, etc. It's true that they are technologically advanced and possess superior marketing capabilities. But they are not invincible.

On the other hand, there are many small, but strong regional retailers that can do things the big guys cannot. They are more flexible. They can make quick decisions. They understand the local market. They communicate better with the customer. And in many cases, they garner a larger percentage of profits to sales.

While there are many BIG retailers (and suppliers as well) gobbling up smaller firms, there are many small survivors. The small guy, albeit squeezed, will not surrender easily. Yes, the small guy does have a chance to compete.

Haim Dabah, president of Gitano, which has grown dramatically in a short time into a $465 million business, subscribes to the following philosophy: "When you are small, you must think BIG, when you are BIG, you must think small."

PUBLISHER'S VIEW

SPARC and IMRA Strengthen Discounting

First impressions often become lasting impressions. And my impression of IMRA's annual convention hasn't changed since I attended my first one 12 years ago. What impresses me the most about IMRA's convention?

It's the sense of belonging, the spirit of cooperation, the camaraderie that exists among manufacturers and retailers.

We spend four days sharing ideas, renewing friendships, attending seminars, walking the exhibit hall and socializing.

And I think that's great. IMRA does a tremendous job developing programs year-round that encourage manufacturers and retailers to work together.

FRED FILER
VP/Publisher

Back in 1978, *Discount Store News* also recognized the need to develop and sponsor a program that would bring the retailer and the manufacturer together. It had to encompass a way to improve communication and give recognition to companies that consistently strive to be the best in their field.

And so the SPARC awards program was born. SPARC (Supplier Performance Awards by Retail Category) is in its 12th year and has become a respected industry event. It continues to grow and flourish because it brings the two sides together in a forum of positive communication and cooperation.

The SPARC program rewards outstanding performance by vendors in 20 merchandise categories. Award recipients are selected by retailers based on 10 criteria that measure a vendor's interest in the success of discount retailers. At this year's SPARC banquet, which will be held Aug. 13 in Chicago, 60 manufacturers will be singled out for recognition and acknowledged as the best in their field.

That same night, the Discounter of the Year is honored and, over the years, it has become the industry's true retailer recognition award. The Discounting Hall of Fame, also part of the program, is also very respected.

In 1986, we added the Vendor of the Year to the SPARC program. It honors one manufacturer, who in the opinion of the SPARC Awards Committee, has best demonstrated all the attributes that contribute to the success of their customers, as well as their own success.

And, so, similar to *DSN's* SPARC program, IMRA continues to be a positive force in discount retailing. Like SPARC, IMRA is dedicated to strengthening the industry.

If you would like to discuss the SPARC program, feel free to stop me in the aisles or ask anyone on the *DSN* staff.

I urge each retailer and vendor to work together in a partnership for growth. Have a productive and successful convention. Make a lasting impression.

IMRA PRESIDENT'S CORNER

IMRA: A Time to Catch Up and Get Involved

With the start of IMRA annual convention upon us, the staff is looking forward to meeting with everyone this week in Orlando. Not only does it give us the chance to renew old acquaintances and make new ones, it also gives the staff the chance to "catch up" with what is happening and begin our thinking for the IMRA fall season.

For those of you who have not attended an IMRA convention before, you should chat with Washington reps Robert Verdisco and Morrison Cain, about becoming more involved in the legislative scene. Also meet our director of conferences, Debra Dohnert, to learn about continuing education conferences. Joe Mosgkowicz will be happy to chat about booth space, membership, and continuing studies and reports.

RICHARD HERSH

For IMRA, the summer will give us the chance to look forward to a hectic fall season. Both the Compensation and Perquisite Studies will be compiled over the summer based on data drawn from the survey, sponsored by Ambassador Cards at the annual convention.

IMRA members should remember that there has been a change in the availability of the Compensation Study. Copies of the study will be available in June and only to those retailers who participated in the study.

The IMRA Perquisite Study, compiled every other year, will be available in early fall and allows retailers to compare their own perquisites with the industry norm.

This fall, IMRA will begin its seminar series with the Store Planning & Design Conference. Store Planning & Design will present an in-depth view of new concepts in space design.

The first conference will be on Nov. 29 in the Grand Kempinski Hotel in Dallas.

As always, we appreciate the continued industry support and the entire IMRA staff hope that you take the time this week in Orlando to become more involved in the association.

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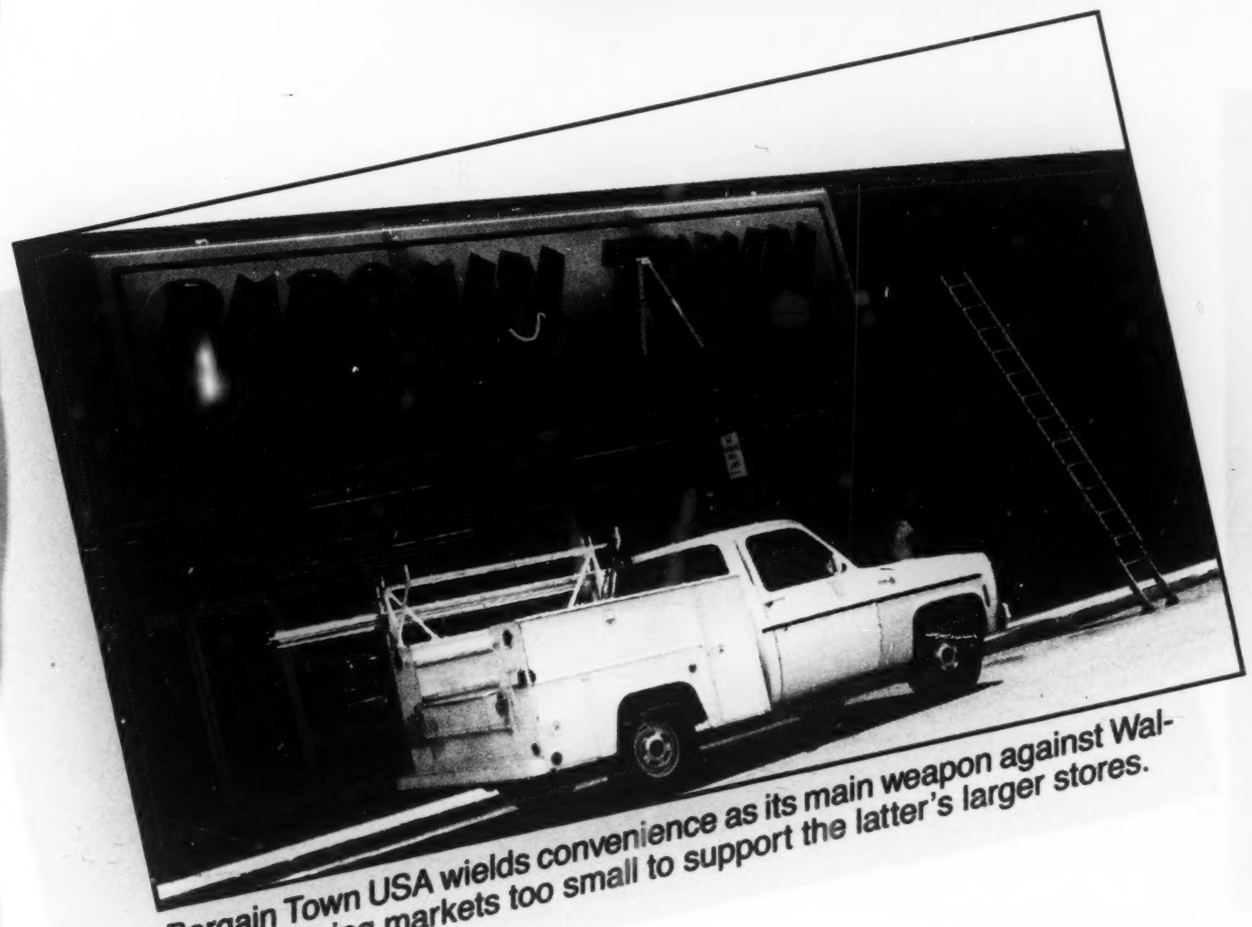
Discount Store News.

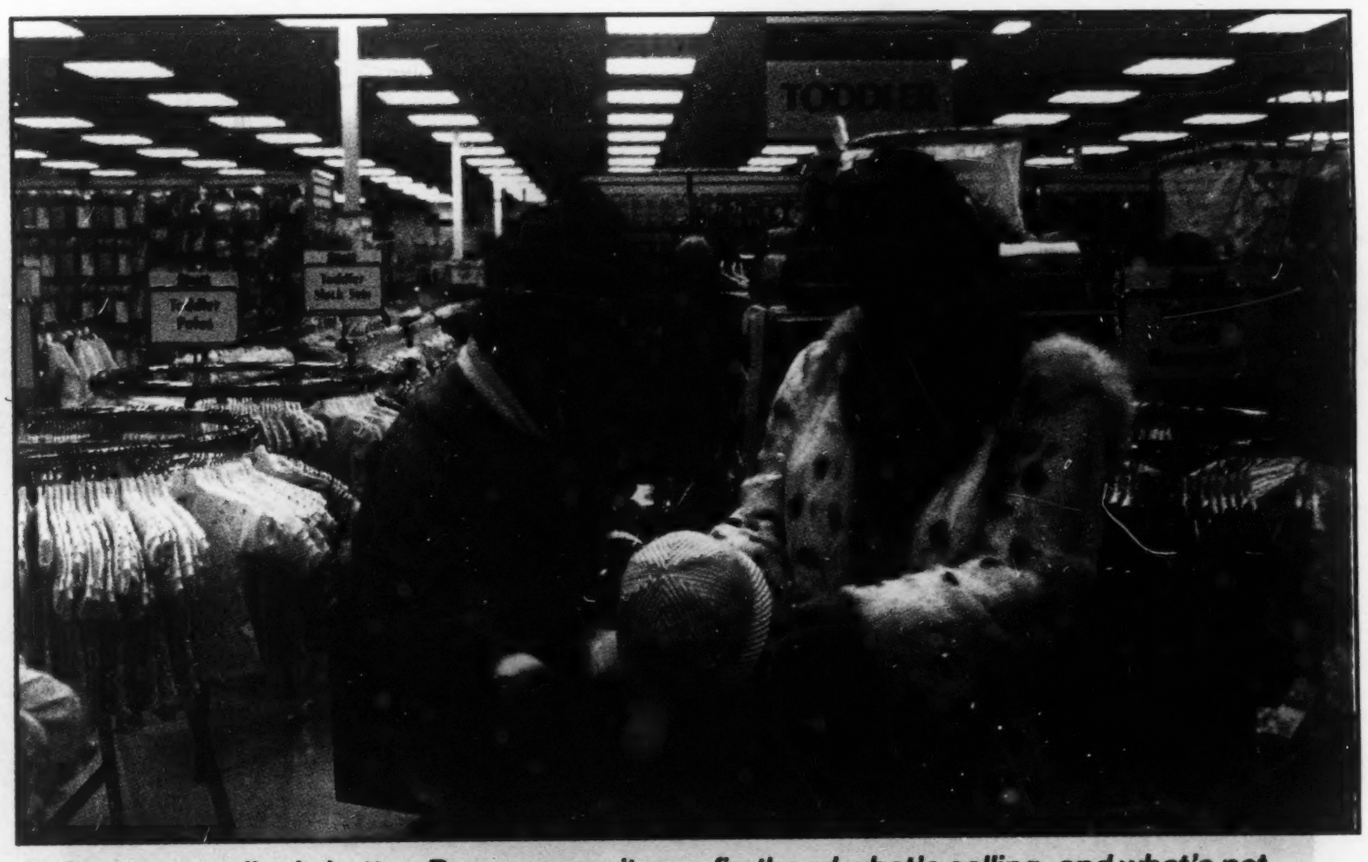
Against All Odds



Bargain Town USA wields convenience as its main weapon against Wal-Mart, entering markets too small to support the latter's larger stores.

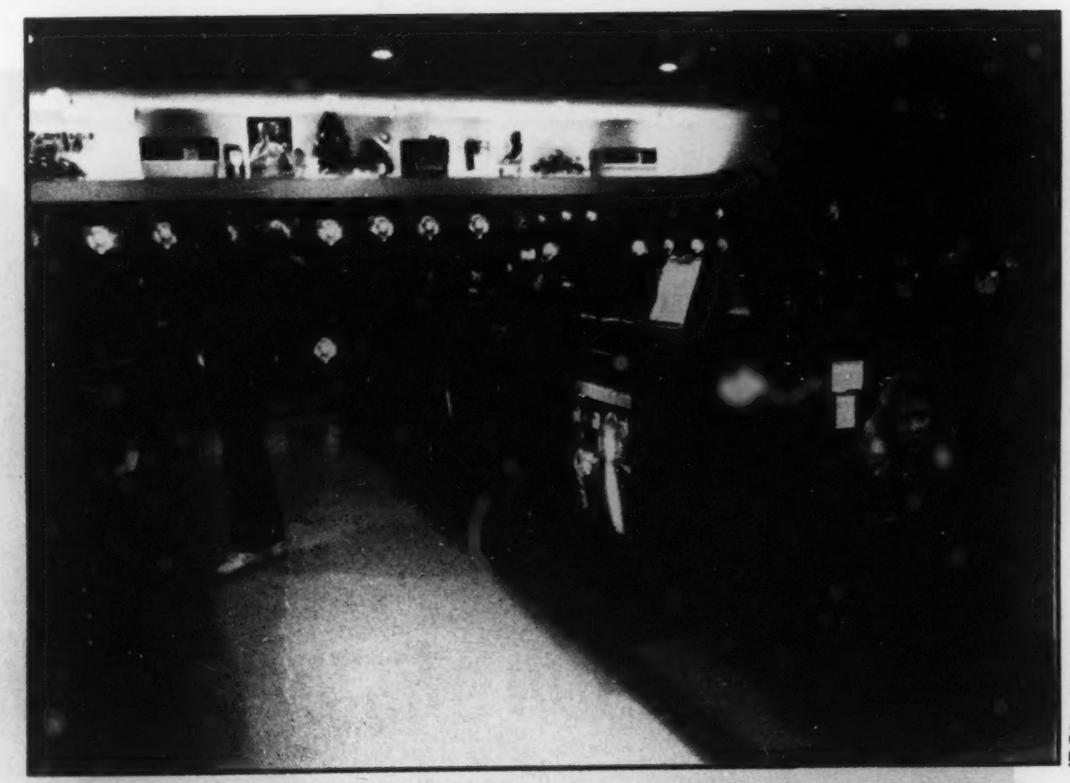
Super-regional operator ShopKo has wheeled out its own hypermarket, Twin Valu, to preempt entries by K mart and Wal-Mart.

Despite growing competition from the large national discounters—K mart, Wal-Mart, Target and the new Ames/Zayre juggernaut—some regional chains are thriving. Their main weapons: intimate contact with their customers and an understanding of local tastes and preferences. DSN examines how nine regional retailers are fending off their larger rivals and takes a shot at predicting national and regional economic trends and their effect on discount store sales.



At Stuarts, smaller is better: Buyers can witness firsthand what's selling, and what's not.

Fedco has built a loyal following in Southern California despite competition from Target and several wholesale clubs.



As the only major discount department store to charge a membership fee, Fedco occupies a unique niche in the industry.

(DSN photos)

Retail Outlook

Some Regionals Thrive Despite Odds

By Peter Hisey

The prognosis for regional competitors against national juggernauts like Wal-Mart, K mart and Sears is not encouraging. The past year has seen a run of buyouts, store closings, bankruptcies and near bankruptcies.

In the midst of all the bad news, though, several regional chains are not only surviving, but thriving. *DSN* took a look at several of these regional operators, and found a few distinct weapons they use to fight off their bigger, stronger and better-financed rivals.

One weapon inherent in the concept of regional retailing is intimate contact with local consumers and understanding their tastes and preferences.

Regional taste plays a key role in the success of retailers as diverse as Fishers Big Wheel, Ann & Hope, L. Luria & Son and ShopKo, all of whom feature some degree of specialization that the national chains can't match.

Ann & Hope, for instance, has been successful for a quarter of a century by dominating the Rhode Island market. It carries a broad selection of most-wanted items and fashionable apparel.

Fishers Big Wheel has concentrated on tiny Midwest markets often too small to interest national chains. In cases where it meets K mart and others, it has certain advantages, which its new prototype, introduced a year and a half ago, accentuates.

Because most of its markets are small and out of the way, the chain has been able to negotiate with nationally known brands rarely found in discount stores. Also, because its merchandise needs are relatively modest, smaller suppliers will do business with Big Wheel, providing the chain with exclusive and semi-exclusive products. Big Wheel has selected certain departments as dominance areas, and blows away competitors in domestics, window treatments and children's clothes.

The new soft lines-intensive format, which features domestics at the front of the store, has been very successful, according to company president Stan Brenner, and will be rolled out as quickly as possible. Most existing stores will be converted to the new look over the next few years. "We're trying to differentiate ourselves from the competition," Brenner noted.

L. Luria and Son, the Florida catalog showroom, is a prime example of catering to local market conditions. Like most catalogers, it competes against traditional discounters in most product areas. Luria has particularly strong competition from nationals like K mart, Zayre/Ames, cataloger Service Merchandise and Wal-Mart.

The chain has fought against incursions from outside (it was established in Florida long before its competitors) by buttressing its image as a local operation, filling in markets, finding new product niches, upgrading its stores and, perhaps most important, reacting to its rapidly changing customer base.

One significant adaptation is Luria's assimilation of the booming Cuban population in southern Florida. Hispanics have been rapidly promoted into visible store and corporate-level posts, and most new management employees are required to be bilingual. Luria's product mix has also be adjusted to appeal to Hispanic shoppers, particularly in areas like jewelry, ceramics and juvenile products, where Hispanic tastes and needs are particularly divergent from the U.S. average.

Regional discounters, under pressure from national giants like Wal-Mart and the recharged Sears, are marshalling their defenses in an effort to avoid the fate of localized chains like TG&Y, one of the many regional discounters to fall victim to rampaging competition and changing market conditions. (DSN photo)

ShopKo, which last year passed $1 billion in sales, is a multi-region operator, but not yet a national chain on the scale of a Target, for example. After opening stores in Washington and Oregon, and with others planned for California, the company has taken its first steps into the national arena. However, it has staked its claim with high-fashion, upscale discount stores that feature name brands unavailable to larger, more prosaic discounters.

ShopKo, like Harts, has wheeled out a big gun in its new hypermarket, Twin Valu. Harts vice president David Godfrey noted, in reference to his company's Big Bear Plus stores, that "the only way to fight a hypermarket is with another hypermarket."

Both chains have been quick to experiment with the format, and ShopKo vice president Gene Bankers noted that the chain's familiarity with the Midwestern market made the plunge less of a gamble than it might appear.

The availability of certain brands is a key weapon in regional chains' arsenals. One supplier, who does sell to major national accounts, bemoaned his existence, saying that he had become a "Wal-Mart junkie." His (admittedly profitable) problem is that his business has become so tied to the needs of two or three accounts that he has lost the freedom to move within the market.

A major domestics supplier who deals only with regional chains and department stores noted that this strategy decreases his vulnerability to policy or merchandising switches. "If I lose a Gold Circle, it doesn't have a lasting effect on my business," he said. "If I lost a K mart, I don't know if I'd recover."

Rose's, the Southeastern discounter, is attempting to step up its access to products not normally available to its competitors, mainly Wal-Mart. It has streamlined its operations by concentrating on several departments, including home fashions, jewelry and apparel, and searched for new vendors. The chain is concentrating on better service and better products, including private label apparel, to differentiate itself from Wal-Mart.

Of course, private label is not a guarantee of success. Bradlees' use of the concept may have been a major contributor to its so-so performance in recent years and the eventual sale of a large part of the chain. The company is in the midst of redefining its competitive stance, as is fellow Northeastern regional chain Caldor.

Caldor, long a highly visible Northeast fixture, fell on hard times in recent years after its acquisition by May Department Stores. But the discounter apparently is fighting back with a new prototype that incorporates: front-end scanning, a consolidated consumer electronics/photo/records and tapes department with its own checkout, new high-impact fixturing in apparel, warehouse-type racking in outdoor products, and increased selling space for children's apparel.

Wisconsin's Prange Way, on the other hand, has reacted to national chains by concentrating on its upscaled apparel presentation. The discount arm of Prange department stores, the chain has developed in its local markets, becoming a dominant apparel retailer in most of the towns it services.

Bargain Town USA, the Alabama-based discounter, has isolated convenience as its main competitive weapon. "Our competitors . . . give up some shoppers due to lack of convenience," said company chief executive officer Jay Kline. With its mini-size (12,000 square feet) and pared-down selection, the chain can profitably enter markets too small to support larger nationals.

The young warehouse club industry has only one truly national chain, Sam's, and a regional, Price Club, that by dint of its massive success must be considered a national power.

However, other operations, like Indianapolis-based The Wholesale Club and Seattle's Costco, have been forced to establish themselves as quickly as possible in their respective markets against the time when their better-financed rivals invade their territories.

Both have settled on an execute-the-basics strategy, attempting to develop their markets quickly and become local favorites. Both have experimented with creative merchandising experiments, but the key to success in warehouse club retailing is rock-bottom pricing and most-wanted products.

Hills Takes a Different Tack

Hills, which like ShopKo is more of a "super-regional" operation than a purely regional one, has taken a slightly different tack than most of the others. Whereas the predominant strategy among regionals seems to be to find niches that nationals can't or won't address, Hills seems to have decided to become the Midwest's Wal-Mart before Wal-Mart invades its regions.

The company has established itself as the lowest-price provider of ladies' and men's apparel in most of its markets, and is sharply competitive in most hard lines areas as well. Hills has identified several niches, most noticeably women's, plus-size women's, jewelry and accessories, and men's jackets. On a price-only basis, Hills can be as effective as Wal-Mart, and it is well-established within its markets.

While most regionals have turned to soft lines to differentiate themselves, two Cincinnati-based retailers have taken quite two different approaches. Swallen's has turned its attention to furniture, CE, major appliances and sporting goods, featuring depth and selection not found at national discounters. Van Leunen's beefed up its sporting goods and sports apparel departments, then spun them off into a new specialty chain, All About Sports.

Clover, the Philadelphia-area retailer, has attempted to counter the larger chains by developing a high-fashion apparel image. With the first prototype open only six months or so, it is too early to judge success or failure.

The same holds true for Jamesway and TSS, two New York area discounters. Jamesway, the object of recurrent takeover rumors, has attempted to step up its fashion image, at least in home fashions, and to sharpen its prices. TSS, on the other hand, has gone back to the birth of discounting to test leased departments, beginning with CE, shoes, toys and auto.

S.E. Nichols, another New York area retailer which, according to one executive, has stuck to "offering the best product at the best possible price," continues to struggle.

Gee Bee, based in Johnstown, Pa., attempted to expand rapidly as a defensive measure, but appears to have foundered under the massive debt the expansion created. It recently filed for Chapter 11 bankruptcy protection.

And, Heck's, based in Nitro, W.Va., has pared its store count radically in an attempt to remain solvent. To date, that move has not been successful, but management maintains that the smaller chain can be competitive in its tiny coal-belt markets, most of which are too small for competitors to enter.

This special report has been compiled by *DSN* senior editors Ken Chanko and Peter Hisey, and associate editors Richard Halverson, Mary Ellen Kelly and Pam Krein, under the direction of editor Tony Lisanti and executive editor Don Longo. Projections on discount store sales were made by Richard Mount, president of Mount Economic Consulting, based on historical data developed exclusively by *DSN*. The section was designed and produced by senior desk editor Martha Gioumousis, desk editors Michael Vickerman and Dawn Wilensky, and graphic artist Karen Kikta, in conjunction with art director Bob Brokman.

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Regional Analysis

Sector Downturns Insulate Economy

Full-Scale Disaster Averted by Mini-Recessions In Some Areas During Past 7 Years of Expansion

By Richard Mount
Special to DSN

The economy is slowing in 1989 as construction markets including housing, office and hotels continue to retrench. Defense spending is being reduced to limit the federal deficit, and state and local governments are cutting back planned spending because of revenue shortfalls.

Corporate America worries about this slowing in demand, is eternally cautioned by Wall Street economists that interest rates might increase, and realizes that the current, 7-year-old recovery is already the longest peacetime expansion. Fearful of another business downturn, businesses are trimming inventories, putting additional pressure on the economy.

Against this backdrop of fear, the economy remains sound and 1989 will be another year of modest gains in real growth. Improvements in capital spending, net exports and consumers who continue to buy at a moderate rate of growth will keep the economy advancing this year.

1990 remains a year in question as far as economic forecasting. By then, the current strength in capital spending and exports will no longer be enough to propel the economy forward. However, currently soft sectors, including non-residential construction, housing, energy and agriculture, should be advancing.

Inflation Key to 1990 Outlook

The key to the 1990 outlook may well be inflation. If price increases during the second half of 1989 do not escalate dramatically, interest rates will show little change, allowing for further gains, albeit modest, in the economy for 1990.

Those who count the seven years of gross national product expansion as a primary reason for an impending recession forget that most major sectors have undergone their own recession-like periods during the recent years of overall expansion, thereby preventing serious imbalances from developing.

Capital spending was weak through early 1985. Soft energy prices have harmed domestic energy production and exploration since early 1986. Agricultural output and farm income has been lackluster because of the high dollar and increased foreign competition. Women's clothing sales were soft in 1988 as styles were not acceptable. Construction has been declining since 1985 because of lengthened depreciation schedules, restrictions on tax deductions and higher interest rates.

The major growth market for the economy in 1989 will be capital spending and, to a lesser extent, exports. Manufacturers' operating rates are currently 84.5 percent of capacity, high enough to cause shortages in many basic industries. U.S. manufacturers must either increase capacity or lose market share, especially to foreign producers.

Other favorable factors for capital spending include industrial production—up 5.0 percent from a year ago, and corporate profits—up 20.6 percent in the same period. Current surveys of real capital spending suggest a gain of 4 percent to 5 percent. As the year continues to remain strong, these estimates will be raised to between 5 percent and 6 percent.

In spite of the low unemployment rate, low dollar and high operating rates in manufacturing, inflation remains well behaved.

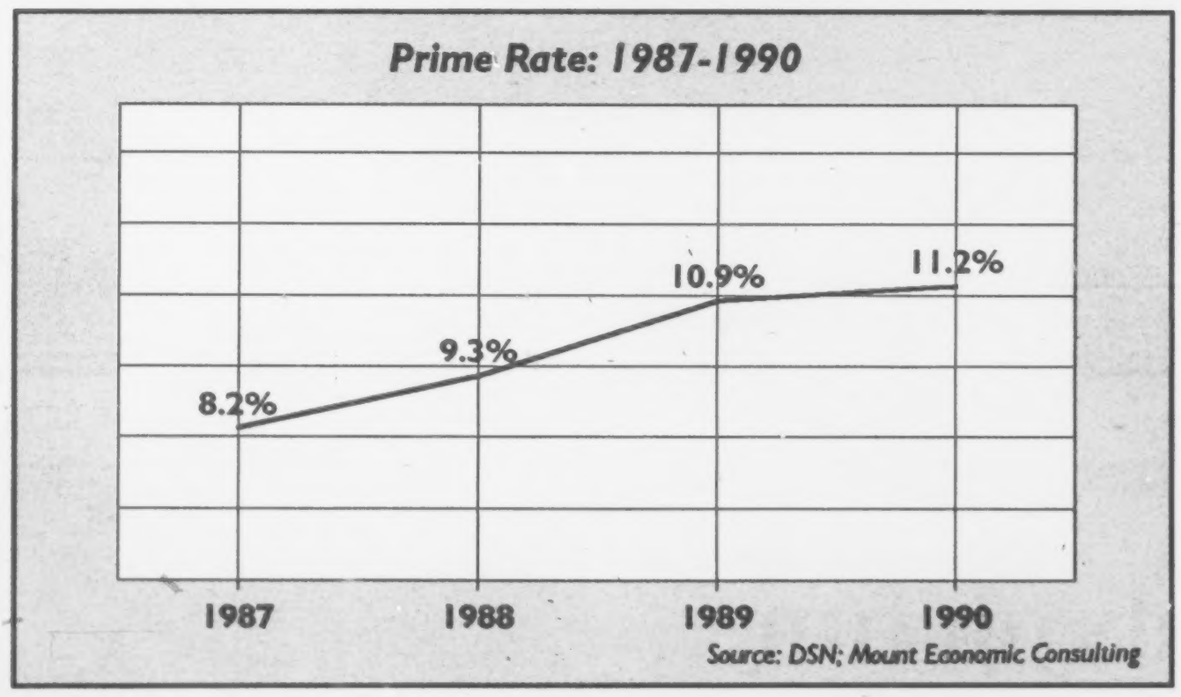
Last year, the consumer price index was up 4.4 percent from December to December, the same pace as in 1987. Many expect inflation to sharply accelerate in 1989, causing the Federal Reserve Board to tighten and business to contract.

We do not subscribe to this theory. Inflation remains controlled because foreign competition is at its most intense of all the post-war years. With foreign producers willing to cut margins to maintain or increase market share, domestic producers have less wage and price flexibility than in the past. The index is apt to increase 5.1 percent in 1989 and 5.4 percent in 1990.

National Forecasts

	1987	1988	1989*	1990*
Percent Change of Major National Indicators				
Real Gross National Product	3.4%	3.9%	2.6%	2.1%
Real Disposable Income	1.7	3.8	2.9	1.9
Consumer Price Index	3.6	4.2	5.1	5.3
The Housing Market				
Housing Starts (000 Units)	1,617	1,488	1,440	1,350
Resales (000 Units)	3,526	3,594	3,465	3,225
Retail Sales				
Total ($ Billions)	$1,521.4	$1,629.2	$1,730.2	$1,834.0
Percent Change	6.0%	7.1%	6.2%	6.0%
Full-Line Discount Store Sales				
Total ($ Billions)	$84.9	$87.4	$90.3	$93.1
Percent Change	2.0%	2.9%	3.3%	3.1%

**projected* *Source: DSN; Mount Economic Consulting*



High mortgage rates and high prices will depress single-unit housing starts by 5.3 percent this year as the housing industry continues its decline. For discounters, weakness in starts and resales will hurt sales of home furnishings.

The rapid gains in the consumer and producer price indexes in the opening month of this year are not sustainable. Wage rates, the major costs to most sectors of the economy, are up only 3.4 percent from a year ago. This moderation in wages in the face of a 4.9 percent unemployment rate, down from 5.5 percent a year ago, shows that management remains determined to prevent costs from escalating in an increasingly competitive world.

Inflation will be the critical test for a continuation of the expansion this year and next. Higher inflation will cause the Fed to tighten policy, driving up rates. We believe that inflation is headed slightly higher this year, and possibly in 1990 as well, but not enough to bring on a business contraction.

Interest Rates to Rise

Interest rates followed an unusual pattern in the second half of 1988: short-term rates increased while long-term rates showed almost no change. The Federal Reserve slowed the growth of the money supply, increasing short-term rates, but continued moderation in inflation kept long-term rates from rising in step with short-term rates.

As inflation rises slightly in 1989, long-term rates will increase about 50 basis points. Short-term rates, however, will rise slightly less than long-term rates because they have already advanced. With higher inflation in 1990, rates will continue to increase.

Housing Starts Crash

The housing industry continues to decline. Starts were off 8.2 percent last year. The biggest decline was in structures off five or more units, typically apartments. These units were overbuilt earlier in the economic recovery, pushing vacancy rates up. In addition, changes in the tax laws lowered investor returns.

Weakness in housing in 1989 will be more concentrated in single-unit starts. Mortgage rates will rise, new home prices are high, and pent-up demand has been satisfied. For 1989, total starts will be off 3.2 percent, with single-unit starts declining 5.3 percent. In 1990, total starts should be down an additional 5 percent.

Resales should decline somewhat more than total new housing—falling 3.5 percent this year because the new multi-unit housing market appears to be stabilizing and because resales ad-

(Continued on page 90)

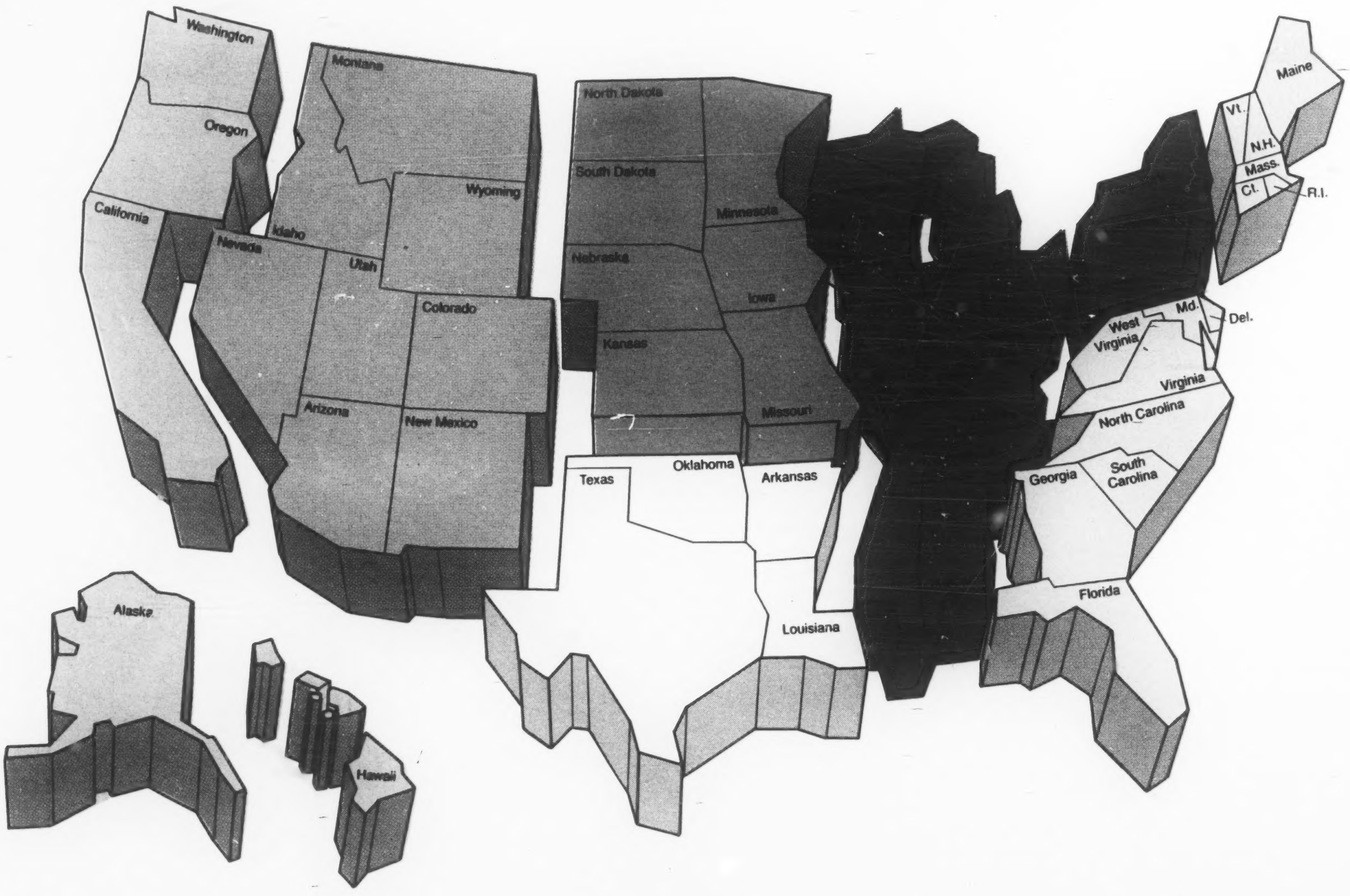
IMRA '89: Regional Analysis

Discount Store Sales Growth by Region

Pacific		Mountain		West North Central		West South Central		South Atlantic		New England	
Year	Percent Change	Year	Percent Change	Year	Percent Change	Year	Percent Change	Year	Percent Change	Year	Percent Change
1987	2.0%	1987	1.3%	1987	2.1%	1987	1.4%	1987	2.2%	1987	2.4%
1988	3.4	1988	2.4	1988	3.0	1988	2.7	1988	3.1	1988	2.8
1989*	3.6	1989*	3.1	1989*	3.4	1989*	3.2	1989*	3.5	1989*	3.2
1990*	3.3	1990*	2.9	1990*	3.3	1990*	2.9	1990*	3.3	1990*	2.8

*projected

Source: DSN; Mount Economic Consulting



Sector Downturns Insulate Economy from Full Recession

(Continued from page 83)

vanced 2.9 percent in 1988, allowing for a steeper decline in 1989. For discount store sales, weakness in starts and resales will impact sales of home furnishings.

Retail Dollars Up, Units Flat

Retail sales growth will be up 6.2 percent this year, compared to a 7.1 percent rise in 1988. While dollar volume will be up because of higher inflation, unit sales will rise only 2.1 percent compared to 4.1 percent in 1988.

With the slower economy, real disposable income will increase 2.9 percent, compared to a 3.8 percent gain last year.

Last year, the softness in retail sales was concentrated in camera and apparel stores. This year, weakness in housing markets will cut into appliance and furniture sales. Clothing sales should stage a comeback, however, with a return to more acceptable styles for women.

Discounter Sales Strengthen

Discount store sales, based on *DSN* estimates and definitions *(see note below)*, increased 2.9 percent in 1988. Sales should be slightly stronger in 1989, up 3.3 percent. This increase will be due to higher inflation; unit sales will show no change. Discounters face greater pressure from higher labor costs now that the unemployment rate is down to 4.9 percent nationally and under 3 percent in many major metropolitan markets. Rising health insurance rates will add to the cost of doing business this year and next year.

The slower real growth in the economy expected for this year and next will be a small plus for discount chains. With slower income gains, consumers should shift some of their spending to discount stores, away from higher-priced department and specialty stores.

Discount Store Sales by Region

(In $ Millions)

	1987	1988	1989*	1990*
United States Total	$84,900	$87,400	$90,310	$93,100
New England	6,384	6,564	6,773	6,964
West North Central	8,346	8,600	8,896	9,189
South Atlantic	13,117	13,530	14,007	14,468
West South Central	10,799	11,091	11,442	11,777
Mountain	4,551	4,658	4,804	4,944
Pacific	7,734	7,997	8,281	8,556

*projected

Source: DSN; Mount Economic Consulting

Richard Mount is president of Mount Economic Consulting, a firm specializing in construction, regional and retail trade economics. For discount store sales, this report utilizes the definition and history of full-line discount stores developed by Discount Store News. *These stores can be considered multi-departmental, self-service, high-volume, low-margin, with central checkout and no one predominant product. Prior to establishing Mount Economic Consulting, Mount was manager of housing, construction and regional economics for Merrill Lynch Economics. He has been on the forecasting committees for Dow Jones and the Housing Market Report.*

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Regional Analysis:

New England

Connecticut • Rhode Island • Massachusetts
Vermont • New Hampshire • Maine

Larger Ames Threatens Regionals

IMRA 1989

New England may never again be a haven for regional discount store chains.

The region, which has been the birthplace of some of the more venerable chains in discount retailing—Zayre, Ames, Ann & Hope, Bradlees, Caldor—is one of few in the country that continues to support a potpourri of regional competitors. However, the New England competitive climate is expected to become stormy with a possible shakeout, which has already victimized such chains as Mars.

The acquisition of Zayre by Ames is the most immediate threat to the New England regional discounters.

For years, limited geographic overlap among Ann & Hope, Stuarts, Rich's, Mars and others allowed these small chains to prosper. Zayre's recent weakness and the lack of a serious threat from a national powerhouse like Wal-Mart or Target has kept these discounters protected somewhat.

Prior to the Ames acquisition of Zayre, there was no single retail powerhouse dominating the market. K mart's impact on the regionals here has been marginal compared to its dominance in other areas.

The Ames/Zayre combo, however, has the potential to become for New England what Wal-Mart has been to the Southern tier of the United States.

A recently completed study of discounters by New York-based analysts Salomon Brothers indicated that Ames accounted for over 25 percent of general merchandise, apparel and furnishings (GAF) sales through discount stores in 1987. K mart stores in the region also represented about one-fourth of GAF sales during that year. Zayre was responsible for 28 percent of sales. If Ames can successfully turn around the lackluster performance of Zayre stores, it could easily gain well over 60 percent of market share in New England. This would make the long-term future of regionals bleak.

In addition to the emergence of a dominant discounter, labor remains a primary concern for general merchandise retailers, fast-food chains and any other business that draws upon the dwindling minimum wage employee population. Surging specialty store competition, especially in affluent areas like Boston and suburban Connecticut, have also taken their slice of both the sales and the labor pies.

None of the chains interviewed plan to open more than a single store in the New England market in the foreseeable future, with the exception of Stuarts, and K mart, both of which scheduled two openings. High costs of labor and real estate combined with a rising affluence in the urban centers are among the factors bringing some businesses to this decision.

Bradlees plans call for a single store opening this month in Meriden, Conn.; no other New England store openings were announced. Caldor will not open any stores in New England this year. Ames, which closed one Zayre in Massachusetts and one in Vermont since last year, has no plans to open any stores in New England until February of 1990, when it will open a single store in Woodsville, N.H., according to Bill Roberts, Ames spokesman. In contrast, a total of 15 other new Ames stores are scheduled to open in other parts of the country this year.

Ames does not have plans to open any other New England stores, "since after the Zayre chain was acquired, there has been no need to penetrate this market any further."

While Roberts said the shrinking labor pool did not influence Ames' decision not to open any New England stores until next year, he did acknowledge that labor is an issue. "We pay an average of $4.20 for entry level store employees in other parts of the country. We have to pay an average of $5 in New England," Roberts said.

Labor was a factor in the move of Zayre administrative staff from Framingham, Mass., to Syracuse, N.Y.

"There is a very good base of people in Syracuse. Right now 108 people are there; by July there will be an additional 112 people," Roberts said.

William Ellis, K mart Eastern regional manager, added, "the availability of help in New England is worse than even last year," and that the problem is compounded by higher minimum wage rates in Maine, Rhode Island, Connecticut and Massachusetts. "We're beyond the baby boomers. The teenagers and people in their early 20s just don't exist here. And as high as the minimum wages are, we have to pay still more [to attract workers,]" Ellis said.

K mart expects to hire a second personnel coordinator for the New England market this month to work on employee recruitment and training.

"We hired a coordinator to recruit at high schools and other agencies during April of last year, and we're looking for a second person," he said. "We now do a better job of training. Before you put them out there on the firing line, you have to prepare them otherwise they get frustrated and quit. And we can't afford to have that happen," Ellis explained. K mart also added a new dental plan in January in the hopes of attracting and keeping more employees.

Prospects for population growth in New England are dim with the exception of New Hampshire and, according to some estimates, Rhode Island. The double-digit population surge in New Hampshire has been commuting straight to Boston, and this trend is expected to continue, even among the minimum wage pool.

"We're competing with the technology fields for help," said Ellis. "There are a lot of unskilled labor positions available. Technology hires clerical workers, secretaries and other people who might otherwise go to retail."

Larry Wortzel, professor of marketing at Boston University, said retail competition continues to heat up. Specialty stores, already jamming New England malls, will continue to proliferate as the cost of store leases becomes prohibitive to retailers that require more space. Ultimately, a shakeout among the specialty chains is likely. "The New England market is at least saturated if not overstored. There might be room far north—the town of Burlington, for example, is growing like crazy. There is a mini-invasion of specialty stores, but I'm not sure the population will be able to support them all."

The purchase of Filene's Basement by May Department Stores will also change competition for apparel sales in New England, Wortzel suggested.

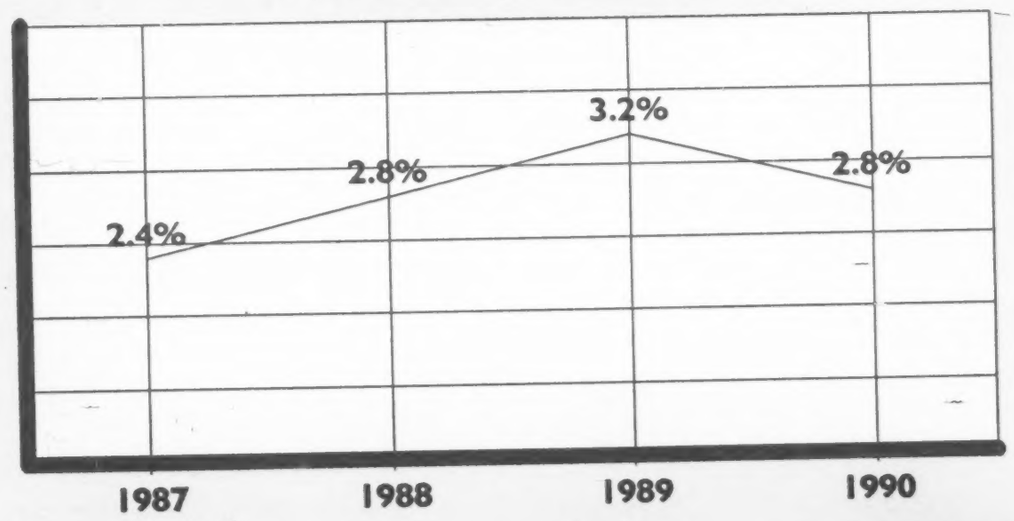
"May is pulling Filene's down into middle market retailing. As Filene's expands, it will eat into discount store and specialty store soft good sales. With May, Filene's is willing and able to cut its prices, especially since Filene's Basement has led the way as a strong discounter competitor."

New England Snapshot

The New England economy will expand slightly less than the nation in 1989 as defense spending is cut back and high home prices reduce construction activity. Labor shortages will worsen, even with slower gains in employment. Advances in financial services will be moderate, although the computer industry will remain strong.

New England Discount Store Sales

(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Connecticut	1.7%	11.7%
Maine	3.6	9.6
Massachusetts	2.2	8.6
New Hampshire	3.2	13.1
Rhode Island	1.0	7.6
Vermont	4.2	10.9
Region:	2.2%	10.9%

*projected

Source: DSN; Mount Economic Consulting

New England Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		**Discount Dept. Stores**	
Zayre (Ames)	78	Miller's	2
Ames	77	Nu Star's	2
Bradlees	75	**Catalog Showrooms**	
K mart	68	Service Merchandise	23
Caldor	58	Consumers Distributing	12
Rich's Dept. Stores	21	R & R	8
Stuarts	21	Save Rite	6
Lechmere	16	Paysaver	5
B.D.'s Stores	14	Prime Value Mart	4
Mars	13	Treisman's	4
The Fair Company	6	Murray's	3
Ann & Hope	6	**Warehouse Clubs**	
Globe	5	BJ's	10
Railroad Salvage	4	Makro	1
Apex	3	Price Club	1
Fishers Big Wheel	2	Total:	548

Source: DSN research

IMRA '89: Providence, R.I.

Lean Population Limits Retail Growth

PROVIDENCE, R.I. — The biggest city in the smallest state is like being at the World's Series but nobody has a ball to set the game in motion.

Like team members, all of the basics are there. Providence is near the major urban market of Boston. It offers new residents and businesses comparatively low-cost real estate. A new railroad station has been built and a convention center and hotel complex are underway. A new downtown retail center is being negotiated . . . but the city lacks a core industry. Without a major industry to draw workers who make and spend wages, nobody in business is scoring a home run.

Despite all the attention the city has received from consumer media, the greater Providence market—which basically constitutes the whole state—is not shaping up to be the best place to open a new store, or at least not yet.

About four years ago, there was strong population growth in much of Rhode Island as real estate prices in Boston became prohibitive and people decided to locate either north (to Nashua or Manchester, N.H.) or south to Providence. The sudden influx of households with high disposable income pulled retailers into the market, especially in the Warwick area.

Now, however the move of Boston workers to Rhode Island has peaked, according to local industry experts. What remains is a market where there are not enough people to run—much less shop at—the menagerie of retailers that flocked to the market.

Gail DalPiana, chairman of the Retail Department at Johnson & Wales college, said there has been modest growth in commercial banking business, in the state, but so far there has not been enough jobs to attract the people who will shop at all of the market's stores.

The Arcade, the oldest enclosed mall in the country, houses specialty stores and is the dominant retail center in Providence. (DSN photos)

"Within the last three or four years, a street in Warwick [Route 2] that was already home to two major malls, now has an additional 15 strip centers. Every product, every price point is now available along that road. The vacancy rate must be 20 percent to 30 percent, and still more retail centers are being constructed," DalPaina said.

Discounters in this Warwick market include Zayre (Ames), K mart, Lechmere, Caldor and regionals Ann & Hope and Apex. Specialty stores like Highland electronics have also joined the competition for sales dollars.

Aram Garabedian, vice president of Bliss Properties, a shopping center management and development company, believes the market is likely to remain overstored for sometime to come, even if development were to come to a halt.

"I know Providence. I've lived here all my life. We don't grow fast. The state is overstored. We don't anticipate any large population growth. The city of Providence itself has lost some 100,000 people since the 1950s. The state has always hovered just below the 1 million population mark," Garabedian noted.

While the prospects for retailers are basically non-existent, he was quick to note that the new convention center could open a new door to business because the local economy is diversifying.

"We were once very dependent on the jewelry industry. It is to our credit that we have diversified," he said. A limited number of high-tech companies have come to Rhode Island and financial businesses are also on the rise.

The lack of a resident population has kept the downtown Providence retail market lean; only Zayre is within city limits. In fact, there is no major department store in the city; the dominant retail center in the city is The Arcade, the oldest enclosed mall in the country, which houses specialty stores.

In some ways, Providence simply looks like a good place to do business in contrast to neighboring alternatives. Real estate costs, while initially inflated when Boston workers moved to the area, have settled back down. The city also has a good transportation network. DalPiana also said the state government is working toward removing some of the obstacles to the entry of new industries.

All that needs to happen, some economists said, is an industry to give it an identity.

Steven Malin, senior economist and director of regional economics at the New York-based forecasting firm The Conference Board, described Providence as, "a city that almost *has* to be an emerging city. It's a rebound city, an old-line industrial city that was hit hard in the past. In terms of space and cost considerations it should be a natural success."

Like Nashua, N.H.—which has been repeatedly cited as among the best places to live in the country and as an economic boom town—Providence is just over an hour outside of Boston city limits, which is easily accessed by major road arteries.

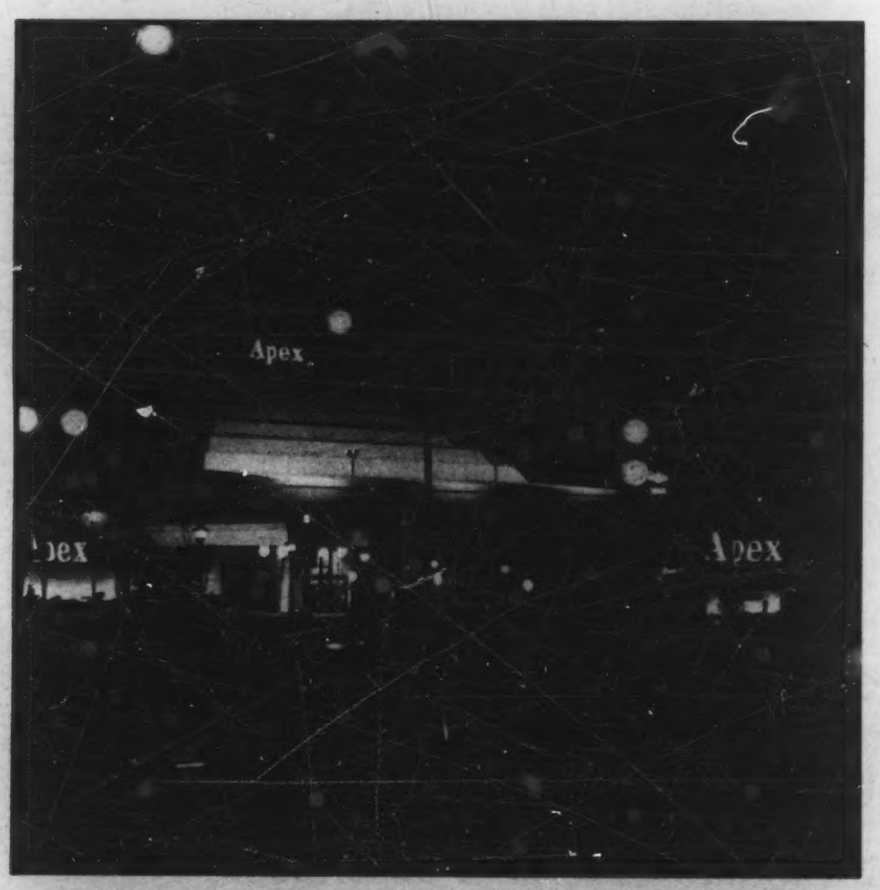
"What the city is missing is a specific industry associated with it. It needs a hook. New England is too rich an area for it not to happen. The city is positioned between two pricey spots—Boston and suburban Connecticut. Almost nobody can afford to move into Connecticut or metropolitan Boston due to real estate prices," Malin said.

Roughly half of the more than $12 billion total effective buying income of the Providence/Pawtucket/Woonsocket Metropolitan Statistical Area (SMA) is spent on retail sales.

Discount Store Count: Providence/Woonsocket/Pawtucket SMSA

Chain	Stores
Discount Dept. Stores	
Zayre	7
K mart	4
Caldor	3
Ann & Hope	2
Apex	2
Stuarts	2
Ames	1
Fishers Big Wheel	1
Lechmere	1
Mars	1
Catalog Showrooms	
Save Rite	3
Murray's	2
Warehouse Clubs	
BJ's	1
Total:	30

Source: DSN *research*



Some of the discounters in this Warwick market include Zayre (Ames) as well as regionals Ann & Hope and Apex.

IMRA '89: Stuarts

Stuarts Treads Competitive Waters

HOPKINTON, Mass. — Stuarts Department stores might not be getting along swimmingly, but it is at least treading water in the sea of New England discounter competition.

Having jettisoned some sources of its administrative and selling expenses, the regional chain was able to improve its gross margins and profits during 1988, despite basically flat sales.

Net earnings were up 50 percent to $833,000 during 1987. (Net operating income for 1987 had been a loss of $317,000, but accounting and tax rate changes added $902,000 to the bottom line resulting in a net earnings gain of $585,000.)

Harry Kohn, Stuarts president, inspires staff at the celebration of its newest store opening in New Bedford, Mass.

President Harold Kohn said the keys to survival for regional chains like Stuarts stem from their ability to be flexible, to react quickly, and to search out more opportunities for special merchandise buys. Kohn was quick to note that these advantages only exist "if everything is properly executed."

The apparel departments, in particular, represent the best opportunities to skirt competition and earn margins, added Kohn. Buyers from smaller chains can take a more hands-on approach because it is easier to see and react to what is going on at store level.

"Regional chains are in a position where management and buyers can be in stores more frequently to see the stores physically, not just the numbers," he said. Buyers can witness firsthand what is moving and what is not and can immediately adjust their buying.

"The MIS at national chains can tell them what's happening with the stock at the total chain, but it's harder to execute a targeted program for individual stores," he explained.

Likewise, ads for regional chains can be more timely and allow for later selection of the merchandise put on the ad. "In terms of promotions, regional discounters can choose merchandise later in the buying cycle," Kohn noted because the physical movement of product to stores frequently takes less time, "if executed properly."

Similarly, opportunistic buys are more plentiful for small chains, Kohn said. Overruns, irregulars and other merchandise lots that constitute "special purchases" are frequently available in small quantities. "Because we are a smaller chain we can make use of opportunistic purchases that would be unavailable or too small for national chains," Kohn explained.

Kohn candidly recognized the disadvantages facing the regional chain, not the least of which is less buying power than national chains. Producing quality advertising also poses a problem for regionals.

The regional chains advertising budget is, of course, smaller due its lower sales volume, forcing it to cut corners on the quality of the advertising circulars. As Kohn outlined, "The professionalism of media output suffers because there is less money, less staff and less technology affordable," to regional chains.

There was a time when regionals were relatively safe from competition because they could select store sites in areas that were too underpopulated to support a second store, much less a *larger* second store.

Now, however, the predatorial environment of discount retailing prompts chains to open stores across the street from one another. The overstoring of most larger markets has lured national chains to develop downsized prototypes and delve into these regions.

Stuarts, however, faces few competitors when compared to most other regions of the country. If nothing else, Stuarts is one of few chains in the United States which does not share any markets with Wal-Mart or Target.

K mart, Ames/Zayre, Caldor and Bradlees are among the chains that are unfriendly neighbors to Stuarts' 21 stores in Massachusetts, New Hampshire, Rhode Island, Vermont, Connecticut and Maine.

Stuarts closed an unprofitable store in Brunswick, Me., at the end of last year, but opened a store in New Bedford, Mass., in March.

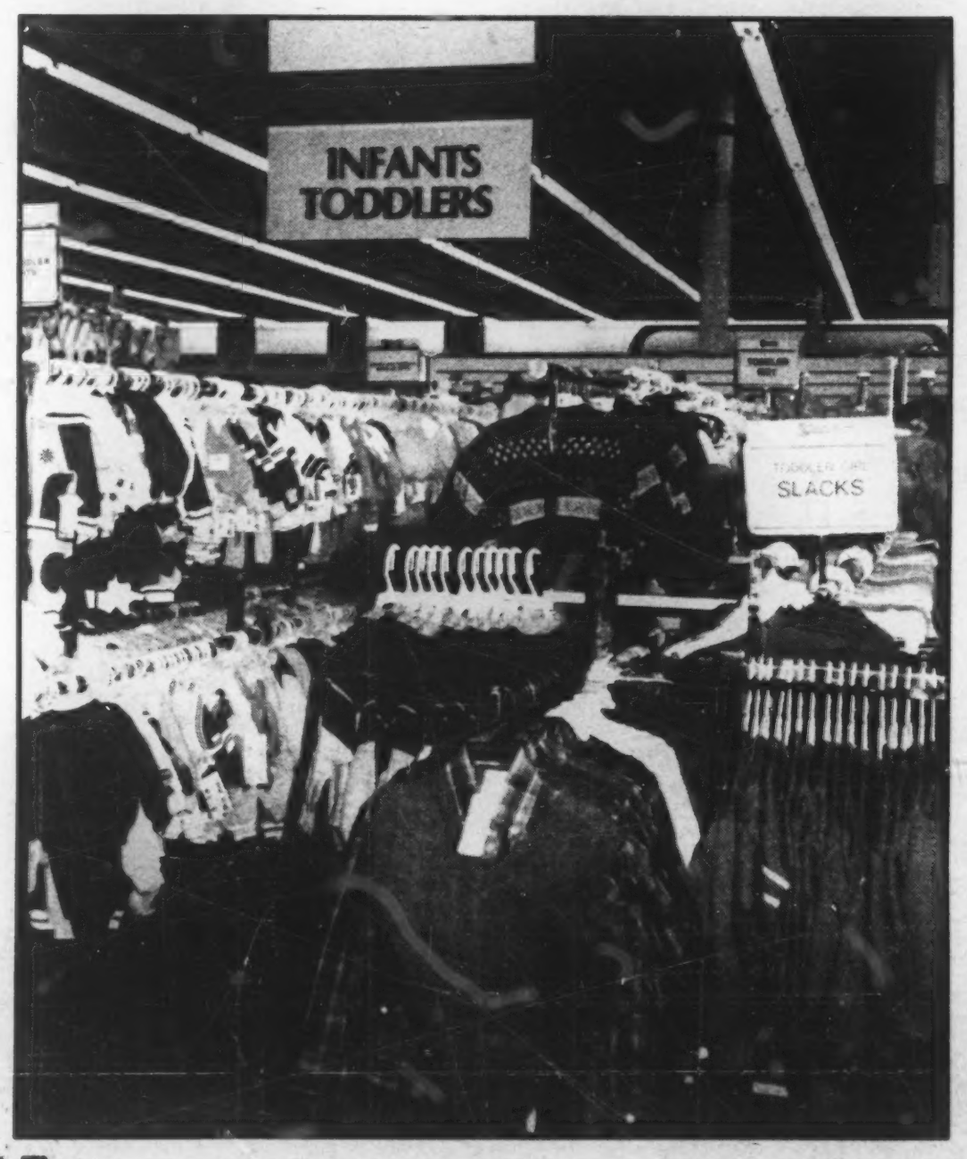
Brunswick was a market Stuarts shared with both a Zayre and an Ames store. Stuarts is in other highly competitive markets including boom town Nashua, N.H. The Nashua market is home to two Zayres (now operated by Ames), a Rich's Department Store, three Bradlees and a Lechmere. In neighboring Manchester, N.H., there is a K mart, Lechmere, Rich's, Zayre and B.D.'s Stores.

The company plans to open another two stores within its trading area by year-end. The locations were not disclosed at presstime.

Stuarts Department Stores
Headquarters: Hopkinton, Mass.
Number of stores: 21
Average store size: 55,000 square feet
Sales (1988): $140.37 million
Net earnings (1988): $833,000
Percent change sales: 0.5%
Percent change earnings: 50.9%
Source: Stuarts Department Stores

A remodeled Stuarts in Nashua, N.H.: The regional discounter boosted margins and profits last year despite flat sales. (DSN photos)

Apparel departments, in particular, offer the best opportunity to skirt competition and earn margins. Buyers from smaller chains can take more of a hands-on approach because it is easier to identify and react to what is going on at the store level.



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Regional Analysis:

Middle Atlantic

Pennsylvania • New York • New Jersey

Sam's Spells Trouble for Regionals

The economic vitality of the Middle Atlantic states—New Jersey, New York and Pennsylvania—is expected to mirror that of the nation.

"There is nothing special about the mid-Atlantic region," said Stan Duobinis, director of regional economic forecasting for the WEFA Group, Bala Cynwyd, Pa. "The region tends to do about the national average," he said. "I don't expect a recession."

IMRA 1989

Retail sales will increase by 6.6 percent to $271.6 billion for the three-state region, Duobinis predicts. That compares with an 8.6 percent gain in 1988 to $254.6 billion.

General merchandise sales, excluding the expected slowdown in autos and appliances, should fare somewhat better, he said.

Inflation to Edge Upward

But with a projected inflation rate of 5.1 percent, compared with 4.1 percent in 1988, the real growth will be even smaller than indicated, Duobinis said, or about 1.5 percent after adjustment for inflation.

WEFA predicts that personal income will grow 1.6 percent this year, down from the previous year's increase of 3.1 percent.

Non-manufacturing jobs will increase by 1.5 percent this year, down from 2.8 percent, WEFA predicts, although factory jobs will increase by 0.2 percent in 1989 after a flat year in 1988.

The jobless rate is running at 4 percent, which economists view as full employment. That compares with 4.3 percent last year.

With unemployment running as low as 2.6 percent in parts of northern New Jersey, a labor shortage is beginning to hamper the growth of New Jersey and metro New York. In markets such as Pittsburgh, Philadelphia, Harrisburg, Buffalo and Albany, however, the labor shortage hasn't yet begun to restrict growth.

A tight labor market, though, is putting pressure on wages, Duobinis said. "Expect to see good, solid wage increases in 1989."

The minimum wage increase isn't an issue for retailers here, with fast-food places paying $5 to $6 an hour in Philadelphia and New York, he said.

Housing starts will slump by 7.2 percent, WEFA predicts, following a 4.4 percent decline last year.

Population growth continues to lag the nation, with the growth rate holding at last year's 0.2 percent.

Discount store sales will rise by 2.8 percent to $11.64 billion in 1989, said economist Richard Mount in his 1989 outlook for *DSN*. That compares with a 2.5 percent gain in 1988 to $11.33 billion. In 1990, they should increase by 2.5 percent to $11.94 billion.

In 1987, the three states accounted for 15.3 percent, or $25.63 billion, of the nation's general merchandise sales, *Sales & Marketing Management* reported in its 1988 rankings. That equaled its share of the U.S. population, 15.3 percent, or 37.7 million.

Robert Hayes, corporate economist for K mart, is a bit more optimistic than most economists, anticipating that the region will perform above the national average.

For discounters, a major development is the pending move of Wal-Mart's Sam's Wholesale Club chain into the Middle Atlantic just as regional chains show further signs of stress.

Wal-Mart is expected to open a Sam's Wholesale Club in Atlantic City, N.J., this summer, followed by a unit in northeast Philadelphia next year and another in Wilkes-Barre, in northeast Pennsylvania.

The entrance of Wal-Mart into the mid-Atlantic spells further trouble for regional chains, said Hayes, K mart's corporate economist.

Hayes gave Wal-Mart credit for having a "very smart and dangerous market penetration strategy."

"Warehouse clubs take the heart of hard line goods sales," Hayes said. "Obviously, they are going to take business away from K mart."

But the major impact will fall on small regional chains, such as Jamesway and Clover, Hayes predicted. "The total retail market is not going to grow fast enough to support a major entrant into the market," he said.

In an economic climate with close to zero sum gain, a new entrant into the mid-Atlantic market is bound to produce some losers among small chains.

Debt Clobbers Gee Bee Parent

As Wal-Mart prepares to test the Northeast waters with Sam's, Glosser Brothers, parent of 18-unit Gee Bee, has declared Chapter 11 bankruptcy. The Johnstown, Pa.-based chain apparently fell victim to rising interest rates and the debt load from a leveraged buyout.

In addition, S.E. Nichols, New York, "is losing money [from 43 stores] and not showing any growth," said Jack Seibald, retail analyst for Salomon Brothers, in a March report on discount chains. Moreover, Seibald predicted a slowdown in the growth of Secaucus, N.J.-based Jamesway, which has 98 stores, because "the company cannot continue to support its recent expansion rate with internally generated funds."

In the past year, TSS, Brooklyn, N.Y., closed two of its four auto and home units and is subleasing excess space in its 12 full-line stores to pare them down in size.

Heck's, struggling to survive in Chapter 11, closed two of its three stores in the southwest Pennsylvania.

Bradlees, Braintree, Mass., failed in its attempts to sell 19 stores in southern New Jersey and Philadelphia because of problems in assigning their leases. So instead of raising money to pay down LBO debt, Bradlees will continue to operate them.

On the other hand, Hills Department Stores, Canton, Mass., increased its presence in the region by acquiring six of the 11 former Gold Circle stores in upstate New York, helping to raise its regional count to 69.

Regionally, K mart remains the dominant discounter, operating 211 units in the three states. Its market share of 1987 GAF (general, apparel and home furnishings) sales led in all three states, Seibald noted in his report. Its share was 6.6 percent in Pennsylvania, 3.5 percent in New Jersey, and 2.3 percent in New York.

In New Jersey, Bradlees was the next highest at 3.2 percent, followed by Caldor, 1.9 percent, and Jamesway, 1.4 percent.

In New York, Ames/Zayre held a combined 2.1 percent share, Caldor, 1.6 percent, and Hills, 0.7 percent.

In Pennsylvania, Ames and Zayre held a 2.6 percent market share, while Hills followed closely with 2.5 percent.

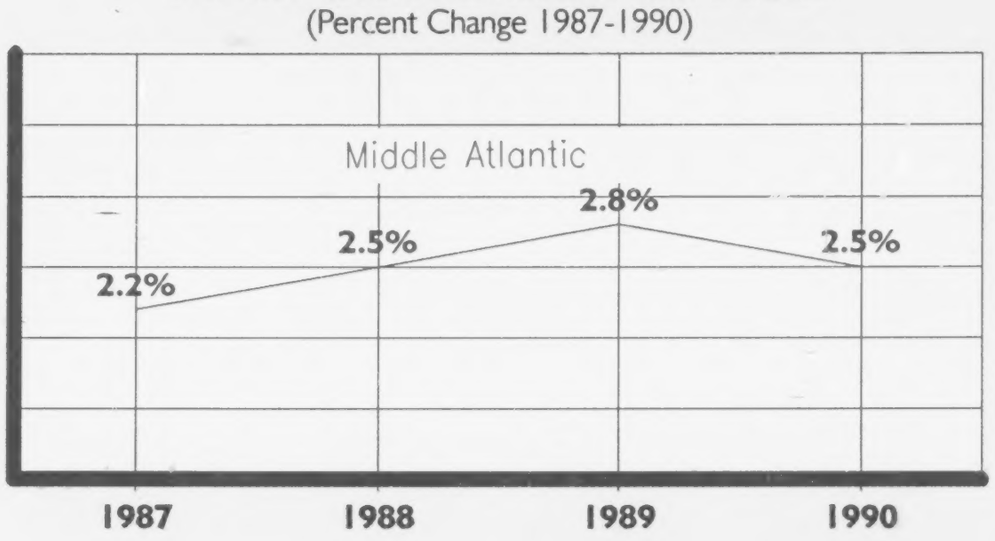
Middle Atlantic Snapshot

The Middle Atlantic states are slowing rapidly. Employment growth for the region, at 1.9%, lags the national average of 2.3%. This gap could widen through 1990. Defense spending is being reduced, high new and existing home prices in New Jersey and the New York City metropolitan area are reducing demand; employment prospects in the financial community are not as good as a few years ago; the non-residential construction market is overbuilt and a further contraction in construction employment will result.

New York state will need to reduce spending or increase taxes to balance its budget. Pennsylvania has become the fastest growing state in the region; it has a higher concentration in durable goods manufacturing and energy production.

Middle Atlantic Discount Store Sales

(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
New Jersey	1.9%	8.6%
New York	1.7	9.4
Pennsylvania	2.1	7.3
Region:	1.9%	8.6%

**projected* Source: DSN; *Mount Economic Consulting*

Middle Atlantic Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		Others	4
K mart	211	Catalog Showrooms	
Ames	142	Consumers Distributing	73
Jamesway	98	Service Merchandise	28
Hills	69	Present Co.	20
Caldor	53	David Weis	18
Bradlees	52	Best Products	17
Family Dollar	49	Brand Name Sales	15
Dollar General	39	Jewelcor	6
Zayre (Ames)	35	Warehouse Clubs	
S.E. Nichols	23	BJ's	8
Clover	22	PACE	3
Gee Bee	18	Price Club	2
Fishers Big Wheel	17	Others	2
Laneco	17	Hypermarkets	
TSS	14	Carrefour	1
Alexander's	11	Total:	1,067

Source: DSN *research*

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IMRA '89: Metro N.Y.

Labor Woes Slow Economy to a Crawl

NEW YORK — Ask an economist about the New York metro economy and the labor crunch will dominate the conversation. And, discount retailers are not alone in trying to find ways to cope with a worsening labor shortage.

For example, because it can't hire enough qualified workers here, American Express hires natives of Ireland and India to work in their home countries, exporting computer analysis chores to employees abroad, said Rosemary Scanlon, chief economist for the Port Authority of New York and New Jersey. Data processing employees in both countries are well-educated and speak English, she said.

Prudential Insurance, Newark, N.J., also sends data processing work to employees in Ireland. "We'll see more of it," Scanlon predicted.

The labor shortage—along with the high housing prices that are partially responsible—is a major factor restraining growth of the metro New York economy.

Financial Sector Takes Hit

Another was the stock market crash of October 1987, Scanlon said. Although a feared recession in the city never happened, New York lost 17,500 financial and banking jobs in the aftermath, and office leasing took an immediate hit, she said.

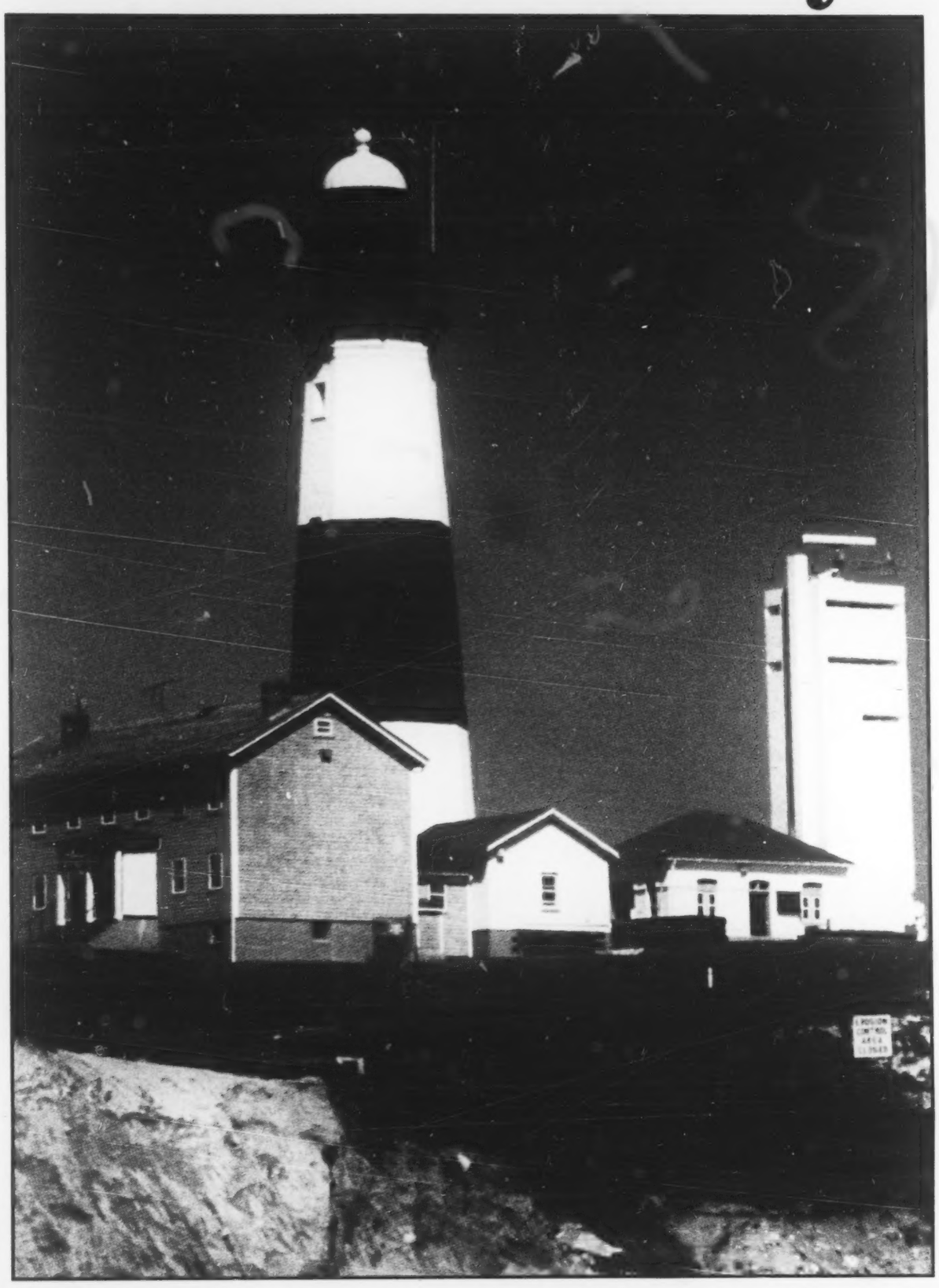
The U.S. Commerce Department defines the metro region as New York City, Long Island, two other New York suburban counties and eight counties in northern New Jersey.

The New York metro region may claim to be No. 1 in population, but its economic growth rate, particularly in retail sales and jobs, takes no prize.

In 1988, "the regional economy expanded at its slowest pace in five years," Scanlon noted in her 1989 report on the regional economy. Growth in private sector jobs screeched to a halt in New York City and fell dramatically in its New York and New Jersey suburbs, she said. Office space and housing starts plummeted throughout the region.

Part of the problem stems from the flight of corporations from New York City, such as the move of JCPenney to Dallas. In addition, corporations with offices in suburban Westchester County, N.Y., including Texaco, Nestle, General Foods and IBM, have been slashing middle management staff as they get leaner and meaner.

In addition, the region has lost manufacturing jobs, particularly in northern New Jersey and on Long Island.



While Long Island's affluence and rapid growth have been a beacon for specialty retailers, national full-line discounters have steered clear of this area.

Little Job Growth Foreseen

In 1989, Scanlon predicted near-flat job growth throughout the region, with perhaps zero in New York City and job gains of less than half of normal in the suburbs. In the '90s, job growth—considered a key indicator of economy vitality—will slow to 0.4 percent a year from 1 percent in the '80s, Scanlon said.

The region's unemployment rate averaged 4 percent last year, well below the national average of 5.6 percent, Scanlon noted in her report. Economists consider 4 percent as full employment. In the suburbs, the rate fell to as low as 2.6 percent in Bergen County, N.J.

"New Jersey's economy is now significantly affected by widespread labor shortages, which are holding down job gains at the entry and lower-skilled levels in retail and sevice sectors," Scanlon noted.

For the region, overall retail sales increased 8.5 percent in 1988, Scanlon noted. But much of that apparent strength came from booming business in New York City tourist attractions, theaters, restaurants and bars, which resulted in a 9.7 percent increase.

Sales increases for general merchandise retailers in New York City, however, were closer to 2 percent to 3 percent, she said. After adjustment for area inflation of 4.7 percent, unit sales probably fell, she said.

Because of the labor crunch, retailers were desperate for help last Christmas, the economist said. One department store chain paid $8 an hour for temporary workers during the Christmas season, Scanlon said, while another paid $10 an hour.

Fast-food restaurants pay $6 or more an hour. McDonalds has been busing workers from the Bronx, a New York City borough, to posh Westchester County for three years. Abraham & Strauss, a department store chain, is busing workers from Brooklyn, also to Westchester, Scanlon said.

Long Island added only 200 retail jobs in 1988, compared with 5,100 in 1987, said Pearl Kamer, chief economist for the Long Island Regional Planning Board.

Regional retail sales of non-durable goods have been flat for quite a while, Kamer said. In 1988, sales of non-durable goods rose just 1.8 percent to $14.80 billion, from $14.53 billion, she said. That was only fractionally better than the 1.4 percent gain in 1987.

A loss of aerospace defense jobs has hurt Long Island, she said.

On a positive note, New York City remains the strongest office market in the nation, the Port Authority's Scanlon said. It is not an overbuilt market, such as Houston, Denver, Boston and San Francisco, she said.

In discounting, though, "the city is remarkably underrepresented by discount stores," she said. Once thriving discounters, such as Kleins and May Department Stores, have disappeared from the Bronx and Brooklyn.

Regional discounters based here are shrinking. Alexander's closed two of its 13 stores over the past year. TSS, formerly TSS-Seedman's, has closed two of its home and auto stores and is subleasing space in its 12 full-line stores to such retailers as Lionel Leisure, which operates a 40,000-square-foot Kiddie City toy store within TSS' Bronx store.

And S.E. Nichols, although based in New York City, operates none of its 23 stores in the metro market.

Area Still Without a Hypermarket

The metro market offers just 128 discount outlets, including 59 catalog showrooms, three warehouse clubs and no hypermarkets, to its 15.5 million residents.

Long Island's infamous traffic congestion partially explains why the metro market has no hypermarket. In 1986, Carrefour, the French hypermarket, paid $18.2 million for 67 acres of land in Brookhaven, N.Y., that was zoned for retail use.

But local residents, protesting about feared traffic tieups from Carrefour, prevailed upon the Brookhaven zoning authorities to block the hypermarket by rezoning the land for residential and office use only. Carrefour responded with a $25 million lawsuit in an attempt to overturn the decision.

But because of the dispute, Carrefour opened its first U.S. hypermarket in Philadelphia, in February 1988, rather than in metro New York.

Among discount retailers, Consumers Distributing heads the list, with 48 catalog showrooms in the metro region, including 11 in New York City.

Caldor commands the lead in metro New York in full-line discount department stores, with 20 units. K mart has nine and Bradlees seven.

Price Club operates one warehouse club on Long Island and is tentatively set to open another there sometime in the fall. BJ's Wholesale Club operates one unit in northern New Jersey and another on Long Island.

In New York City's five boroughs, K mart operates two stores on Staten Island, and Alexander's, which emphasizes apparel over hard lines, runs two stores in Manhattan, two in the Bronx and one in Brooklyn.

TSS is another major discounting factor within New York City, operating three units in Brooklyn, and one each in the Bronx and Queens.

On Long Island, TSS operates nine stores, compared with Caldor's eight.

Because of the affluence of Long Island, specialty retailers such as The Wiz and Newmark & Lewis in CE, Toys "R" Us, Marshalls in apparel, and upscale department store-anchored malls dominate the retailing scene, to the detriment of full-line discounters. K mart, for example, has never seen fit to open a store there.

In specialty discounting within New York City, Lionel Leisure last year opened Manhattan's first discount toy store. After it followed with two more Kiddie units in the Bronx (including the one in space leased from TSS), Toys "R" Us signed a letter of intent to build its first Manhattan unit just down 34th Street from the Kiddie City store.

New York City long has been a haven for consumer electronic specialty chains such as The Wiz, J & R Music World, Newmark & Lewis and Crazy Eddie (until it ran into financial problems in the past year).

Discount Store Count: Metro New York Area*

Chain	Stores
Discount Dept. Stores	
Caldor	20
TSS	14
Alexander's	11
K mart	9
Bradlees	7
Jamesway	2
Century 21	2
Ames	1
Catalog Showrooms	
Consumers Distributing	48
Service Merchandise	11
Warehouse Clubs	
BJ's	2
Price Club	1
Total:	**128**

**Includes stores within the metropolitan area of New York City and four suburban New York counties: Nassau and Suffolk, on Long Island, and Rockland and Westchester; and two northern New Jersey counties, Bergen and Passaic.*

Source: DSN research

IMRA '89: TSS

TSS Contracts to Stay Alive on L.I.

BROOKLYN, N.Y. — TSS (formerly TSS-Seedman's) is demonstrating that small, regional discounters can operate in special market niches as the giants extend their reach.

TSS, which stood for Times Square Stores, runs 12 full-line discount stores, averaging 150,000 square feet in size, plus two 15,000-square-foot home and auto stores.

In addition, it operates 17 units of Finders Keepers, its off-price apparel chain, in New York and New Jersey.

The company employs a total of about 2,875 people.

Oddly enough for a discounter, its primary market niche is the wealthiest metro market in the country, the Nassau and Suffolk counties that comprise New York's Long Island suburban market. Median family income in 1987 was $45,512, *Sales & Marketing Management* determined in its 1988 Survey of Buying Power.

That compares with a U.S. average of $25,888, *S&MM* said. The next highest was the Bridgeport/Stamford/Norwalk/Danbury market in Connecticut, at $42,751.

On Long Island, a densely populated region, 44 percent of families enjoy incomes of $50,000 or more.

Given such high incomes, department store malls and specialty retailers have thrived. Discounters are conspicuous by their absence.

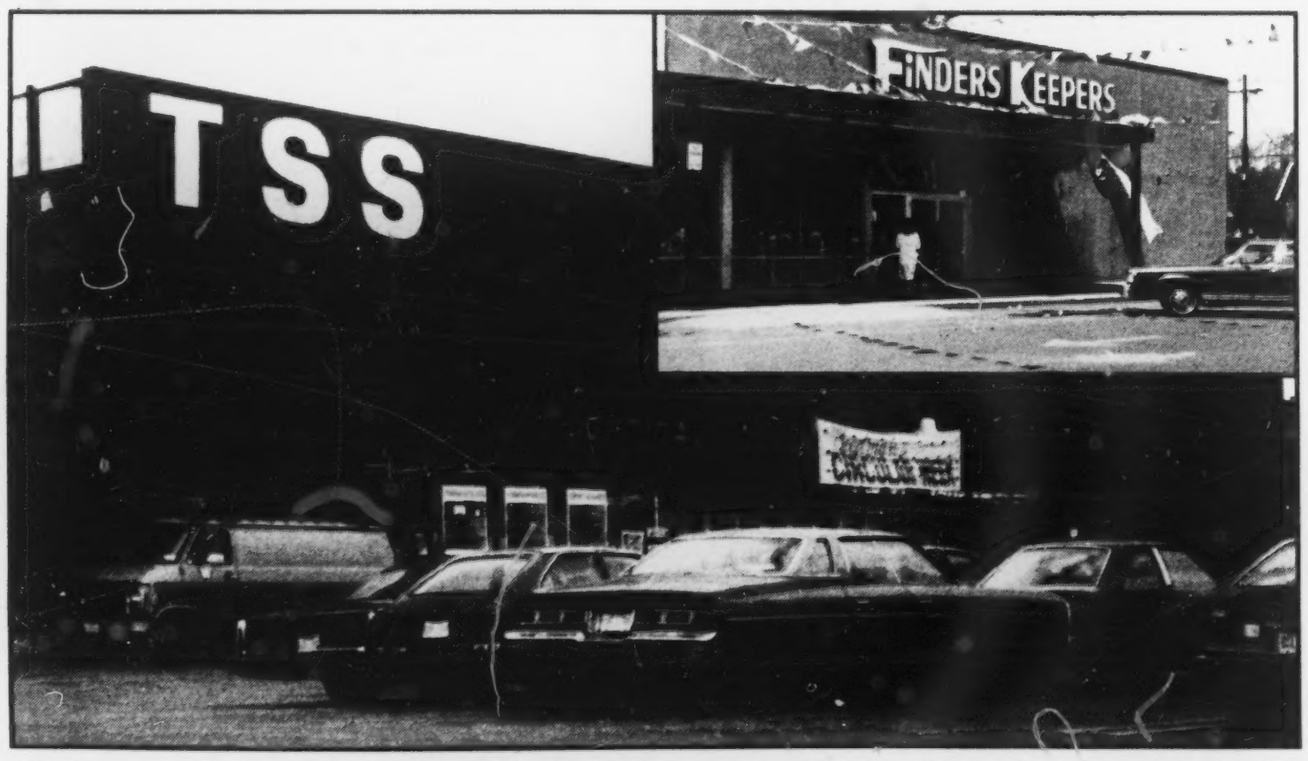
K mart, for instance, avoided Long Island. Bradlees flew right over Long Island when it expanded southward during the early 1970s into the Philadelphia and Virginia markets.

Caldor, with eight units, is the other discounter on Long Island. But Caldor and TSS have avoided competing in the same communities except in two cases, Levittown and West Babylon.

TSS, Bronx, N.Y.: Although 65 percent of TSS' sales are in hard lines, the chain is shifting its merchandising mix towards soft lines and apparel. (DSN photo)

Oddly enough for a discount store chain, TSS' primary market niche is the wealthiest metro market in the country, the Nassau and Suffolk counties that comprise New York's Long Island suburban market. Median family income in the area was $45,512 in 1987. That compares with an average of $25,888 in the United States.

Finders Keepers, Clark, N.J.: Finders Keepers accounts for an estimated 10 percent of TSS' sales. (DSN photo)



While TSS continues to expand Finders Keepers, its 17-unit off-price apparel chain, the discounter has no plans to add any full-line stores. (DSN photos)

Julius Kasinitz, TSS chairman and chief executive officer, worked at Caldor from 1968-1981, where he was vice president for operations. Before coming to TSS, he was with Almy's, a New England department store chain. His other retail experience includes stints at the now defunct S. Klein Department Stores and the Two Guys chains.

Of TSS' 12 stores, nine are on Long Island, two others are next to Long Island in Brooklyn and Queens and another is in the Bronx, all boroughs of New York City.

TSS changed hands in October 1987 when founder George Seedman sold the chain for an estimated $50 million. Seedman backed out of a previous deal to sell TSS to Price Club, reportedly because he learned of plans to convert the stores to warehouse clubs. Seedman founded the company in 1929.

The new owners are an investment group headed by Chicago's Jay Pritzker family, whose other holdings include the Hyatt Hotel chain. The group holds 81 percent of the stock, and an Employee Stock Ownership Plan holds the balance of 19 percent.

The new owners dropped the Seedman's part of the chain's name. In addition, they sold six stores in Puerto Rico for an estimated $20 million to help pay off bank debt and closed two of its smaller home and auto stores.

In other consolidation moves, TSS is leasing excess space in its stores to reduce their size to around 120,000 square feet, thereby creating mini-malls within stores.

TSS
Headquarters: Brooklyn, N.Y.
Number of stores: 14
Average store size: 150,000 square feet
Sales (1989): $250 million (projected)
Earnings (1989): NA
Percent change sales: NA
Percent change earnings: NA
NA—not available *Source: TSS*

As an example, TSS leased 40,000 square feet of its Bronx store to Lionel Leisure for a Kiddie City discount toy store. That still left 180,000 square feet in the former Korvette's store, Kasinitz said.

In a sense, TSS is reverting to the earliest days of discounting with its strategy of leasing deparments, rather than trying to operate them directly. In another sense, though, TSS is right in step with the hypermarket policy of leasing shops to flesh out the one-stop shopping concept.

The latest example is its agreement with Great Bear Automotive Centers, Merrick, N.Y., to lease auto service centers in 11 stores.

TSS previously offered only limited tire and battery service, but the agreement with Great Bear calls for full service. TSS will continue to sell tires and batteries, with Great Bear handling the mounting and installation.

In other leasing agreements, TSS also leased space to J. Baker Shoes, for shoe departments; Brick Church, for consumer electronics; and Trans World Music, for records and tapes.

Among the leased departments are men's and boys' wear, drugs, jewelry, records and tapes, home improvements, pets, cards and cameras.

In 1987, 35 percent of store sales were soft lines; 65 percent were hard lines. Sales per square foot averaged $87. All stores have point-of-sale scanning equipment.

In keeping with its interest in its Finders Keepers chain, TSS is attempting to shift the merchandising mix toward women's and and children's apparel, domestics, and housewares, Kasinitz said.

Rather than trying to expand its full-line store count, TSS is concentrating on remodeling existing stores, Kasinitz said. It already has revamped four and expects to redo three more in 1989 and the remaining five in 1990.

The remodeling reflects the new emphasis on apparel, domestics and housewares, Kasinitz said.

The two remaining home and auto stores also have undergone a shift in merchandising. Automotives now account for 30 percent of sales, down from 60 percent, Kasinitz said. More home, domestics and tabletop goods have taken up the slack.

Although no more full-line stores are on the drawing board, TSS may add more new home and auto stores that would reflect that new merchandising ratio, Kasinitz said.

For the moment, TSS is concentrating on expanding its off-price apparel chain. It opened one Finders Keepers unit last December and the latest, store No. 17, in South Plainfield, N.J., opened in February.

As a private company, TSS declines to release information about profitability. Kasinitz estimated that 1989 sales will total about $250 million. Finders Keepers will account for about 10 percent of that, he said.

Regional Analysis:

East North Central

Ohio • Indiana • Illinois
Michigan • Wisconsin

Success Stories Outnumber Failures

The East North Central region is one of the most urbanized in the United States, with major population centers like Chicago, Detroit, Cleveland, Columbus, Milwaukee, Cincinnati and Indianapolis accounting for most of its residents.

IMRA 1989

Together, the five states (Illinois, Indiana, Michigan, Ohio and Wisconsin) accounted for over $16 billion in discount store sales last year, with that figure expected, according to *DSN*/Mount Economic Consulting research, to rise to $16.8 billion in 1989. Both figures are the highest among the nine regions in the nation.

Discount store sales growth is expected to total 3.4 percent this year, slightly above the U.S. rate of 3.3 percent, and the region's growth is expected to equal or better the U.S. rate in the coming years. In 1990, the rate is expected to be 3.3 percent, vs. 3.1 percent for the country as a whole.

Wisconsin has been the strongest state in retail growth (11.4 percent last year), but the region as a whole has been one of the strongest in the United States, although it has never posted the boom-type figures turned in during recent years by the South Atlantic and New England areas.

Overall, the region accounted for $512 billion in effective buying income in 1987, the highest gross total in the United States, but the region also had a high population. Retail sales accounted for $243.3 billion of that, second to the shopping spree-prone South Atlantic region. Illinois shoppers spent the most in retail stores, $66 billion, and Wisconsin shoppers spent the least, $26 billion, probably because there are a lot less of them.

Region's Frugality Slows Down Sales

Statistically, the region conforms to the stereotype of Midwesterners as conservative, thrifty folks. Illinois' Lake County, which contains several exclusive Chicago suburbs, was the most profligate market within the region, and it only ranked 54th in the United States in per household retail sales, at $19,602. Flint, Kalamazoo, Ann Arbor and Saginaw, Mich., all ranked in the top 80, and Detroit (102) and Chicago (170) finished well out of contention.

Chicago is the third-largest retail market in the country, and Detroit is the sixth largest. Cleveland (20th), Cincinnati (32), Indianapolis (34), Columbus (35) and Milwaukee (39) also ranked in the top 50 markets. As general merchandise markets, all were slightly more highly rated.

On the whole, the region is more susceptible to the vagaries of the national economy than the more economically diverse regions like the mid-Atlantic and the Northeast. The East North Central relies on a dichotomous mixture of heavy industry (autos, steel) and agriculture and both are prone to protracted slumps.

On the other hand, the migration southward that stripped the Midwest of a good chunk of its population seems to have dried up, and cities like Detroit and Chicago have been undergoing something of a renaissance. The turnaround of the auto industry has turned Detroit from a ghost town into a thriving, if still below average, market, and Chicago's wealthy suburbs are in a boom cycle. However, the auto industry appears to be slowing down, and business as a whole in the region has not been overwhelmingly buoyant.

According to a March report issued by the U.S. Department of Commerce, respondents in the fourth district (Cleveland) are optimistic about the coming year. While they project slowing growth rates in most parts of the region, as well as slowing auto sales, they point to higher steel and heavy machinery prices and at-capacity production industries (trucks, ball bearings, steel) as harbingers of a relatively strong year.

Strong production has had an indirect impact on the shortage of retail help, however, forcing discounters to pay more for workers. According to the report, however, "non-automotive retailers have been surprised by strong sales since last fall," but some are worried that higher interest rates could stall growth after the spring.

In the seventh district (Chicago), prospects looked even better. Again, car sales have slumped, creating production cuts and layoffs, but most hard industries continue to prosper and retail sales have been strong. However, the growth at retail has not been across the board. According to the report, "same store sales in February (ranged) from about even with a year ago to double-digit gains," perhaps reflecting the increasing competition in the region.

ShopKo a Super-Regional Power

Retailers seem to be doing very well in the Midwest. Despite the recent Chapter 11 filing by Gee Bee and the sale of Gold Circle stores to Hills and Target, most discounters in the region have done very well of late. ShopKo and Prange Way, both based in Green Bay, Wis., have grown rapidly—ShopKo to the point where it has to be considered an incipient national retailing power. ShopKo has solidified its position in the Midwest with its Twin Valu hypermarkets, at least two of which will be up and running in the Cleveland area by year-end.

Hills, based in Massachusetts but operating mainly in the Midwest, has also been a success story over the past year. The chain has seemingly established itself as the Wal-Mart of the Midwest, in anticipation of a full-scale invasion of the region by the national power.

Another regional operator, Fishers Big Wheel, has solidified its position as a small market power with a new prototype and aggressive merchandising and pricing.

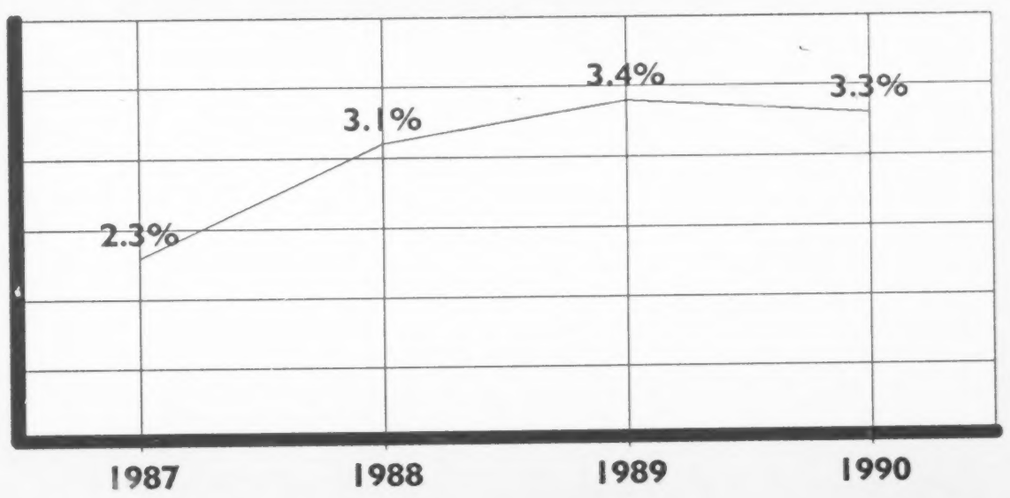
Wal-Mart continues to expand rapidly in Chicago's outer suburbs and Wisconsin. K mart has introduced its newer prototypes in Ohio and Michigan, and Target, which moved into K mart's Michigan back yard, has expanded its Midwest presence.

East North Central Snapshot

The East North Central states should be one of the stongest regions this year and again in 1990, if an economic downturn can be avoided. With the current recovery in industrial production and capital spending, these states will post above average rates of growth in retail and discount store sales. Michigan is the soft spot now, as auto production will be slowing . A sharp contraction is not in the offing for auto sales, but higher interest rates, slower income gains, and recent strength in auto sales has satisfied pent up demand for the moment.

East North Central Discount Store Sales

(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Illinois	2.5%	4.6%
Indiana	4.1	5.0
Michigan	2.7	5.9
Ohio	2.8	4.1
Wisconsin	3.2	11.4
Region:	2.9%	5.6%

**projected* Source: DSN; Mount Economic Consulting

East North Central Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		**Catalog Showrooms**	
K mart	482	Service Merchandise	55
Wal-Mart	109	Best Products	23
Hills	92	K's Merchandise	11
Zayre (Ames)	72	E.H. Tepe	10
Fishers Big Wheel	69	Witmark	9
Target	60	A.J. Foland	7
Ames	59	Jewel Mart (David Weis)	5
Meijer	51	W. Bell	5
Venture	45	Lancaster Sales	4
Quality Stores	43	U.S. Merchandise	3
ShopKo	38	Dart (Arthur's)	2
Harts	30	**Warehouse Clubs**	
Pamida	24	The Wholesale Club	14
Prange Way	24	Warehouse Club	10
Schottenstein (Valu City)	24	Sam's	6
Val Corp.	14	BJ's	4
J.A. Conley	10	PACE	4
Click	9	Makro	2
Swallen's	9	**Hypermarkets**	
ALCO	8	Big Bear Plus	5
Shoppers World	8	Auchan	1
Silverman Bros.	8	Twin Valu	1
Others	37	Total:	1,506

Source: DSN research

IMRA '89: Chicago

Newcomers Add Sizzle to Hot Market

CHICAGO — Chicago is both understored and overstored; thriving and solidifying.

For instance, *The Chicago Tribune* estimates that retail square footage has expanded by some 20 percent over the past four years, and will probably continue to grow at a similar rate, about 5 to 7 percent, over the next three or four years.

On the other hand, Professor Louis W. Stern, a marketing lecturer at Northwestern University's Kellogg Graduate School of Management, said flatly that Chicago is "overstored."

They both may be right. Urban Chicago, which is heavily stocked with Venture, K mart, Zayre, Marshall Field and a host of other retailers, may well be overstored in certain areas, as is the case with many of the city's major suburbs.

However, Cook County (mainly, urban Chicago) has only 12 square feet of retail selling space per resident, vs. a national average of about 15, and several suburbs are below that figure, according to *Tribune* marketing manager Bruce Kramer.

In contrast, relatively affluent suburbs like Du Page and Lake Counties boast 25 square feet to 27 square feet of shopping space per capita. With the blitz by consumer electronics superstore retailer Silo last fall (14 stores and 11 more within Marshall Field department stores), Bloomingdale's entry into the downtown scene (also last fall), and the recent opening of an Auchan hypermarket on the city's perimeter, the retail market is becoming increasingly competitive.

"The hypermarket will have to take consumers away from existing retailers," said Northwestern's Stern, adding that, with the latest developments in power specialty stores and hypermarket formats, mass retailing should probably be referred to as "massive" retailing in the future.

The consumer electronics market has been particularly hot in Chicago over the last year. Apart from the Silo invasion, Highland Superstores has been growing, Montgomery Ward's Electric Avenue outlets have been successful, and Best Buy is rumored to be looking at the market. This year will also see the debut of Sears' Brand Central stores in Chicagoland.

There may be a bloodbath coming. Major players, in market share order, include Service Merchandise, Radio Shack, Sears, Highland, Venture, Montgomery Ward, K mart, Fretter, JCPenney, Zayre (now owned by Ames) and Polk Bros., according to a *Tribune* market study. Fretter is reportedly under pressure, and others will probably follow in 1989.

Marshall Field ranked only 12th in market share and nearly dead last in converting shoppers into buyers, but that will probably change as Silo becomes more established.

Fashion apparel is another growth area, with traditional department stores like Field and Carson Pirie challenged by the media circus created by Bloomingdale's opening. Bergner stores, basically a secondary market retailer, is also strong in the area, and has just made a $20 a share bid to take over Carson Pirie Scott.

Home center superpowers like Builder's Square dominate Chicago's booming building supply market, which is in the process of heavy gentrification. Housing costs are extremely high in downtown Chicago, and the practice of rehabilitating existing structures is both aesthetically and financially rewarding.

Wal-Mart is in the process of ringing the city in the outer suburbs, and is already a major player there. As it continues to open stores, it will put pressure on both K mart and Venture, and even more on Zayre, which recently closed several stores.

City Unkind to Warehouse Clubs

The city has also proved to be highly resistant to the warehouse club concept. The Warehouse Club failed miserably, as did American Wholesale Club, and BJ's has had a long, hard road to profitability.

Chicago is the third-largest market in the United States, with a population of 6.2 million, after New York and Los Angeles. It has the second-largest black population in the U.S. (about 1.5 million of the city's residents) and contains the country's fifth-largest concentration of Hispanics.

Support is lent to the understored theory about Chicago by its relatively poor standing in per household retail sales. Chicago is third in the country in total retail sales, about $38 billion, but only 170th in per household retail sales, less than $17,000 per household.

However, it appears that inner Chicago is undergoing something of a renaissance. In recent years, an exurban migration has boosted mall sales in the suburbs at the expense of the inner city. That seems to be turning around somewhat, as gentrification has attracted new retailers. North Michigan Drive, which Chicagoans are promoting as the "Rodeo Drive of the Midwest," has become home to Bloomingdale's, high-end specialty retailers, several luxury hotels and may soon host the ultra-hot Nordstrom department store.

The net result, according to *The Chicago Tribune*, should be a sharp increase in retail sales in the Chicago MSA from $52.4 billion in 1987 to $78 billion in 1992. Per household retail sales are expected to rise to $25,600 from 1987's $17,800.

Those totals will be bolstered by increases in the city's booming tourist and business visitor industries. Some 3 million trade show attendees flood the McCormick Center each year, and another 7 million tourists visit Chicago. Together, they spent over $5 billion in 1987, and that figure is expected to rise sharply.

Over the next 10 years, Cook County's population is expected to shrink somewhat, but average household effective buying income will more than double. The suburban counties (Lake, DuPage, Will, Kane and McHenry) will average about 13 percent growth.

According to the *Tribune's* Kramer, local shopping within the city should improve over the next few years, due to a combination of an influx of young professionals and the gradual rehabilitation of older retail plants.

Shoppers at regional and super-regional megamalls have become both less common and less loyal over the past two years. Local and neighborhood retailers seem to have siphoned off those shoppers.

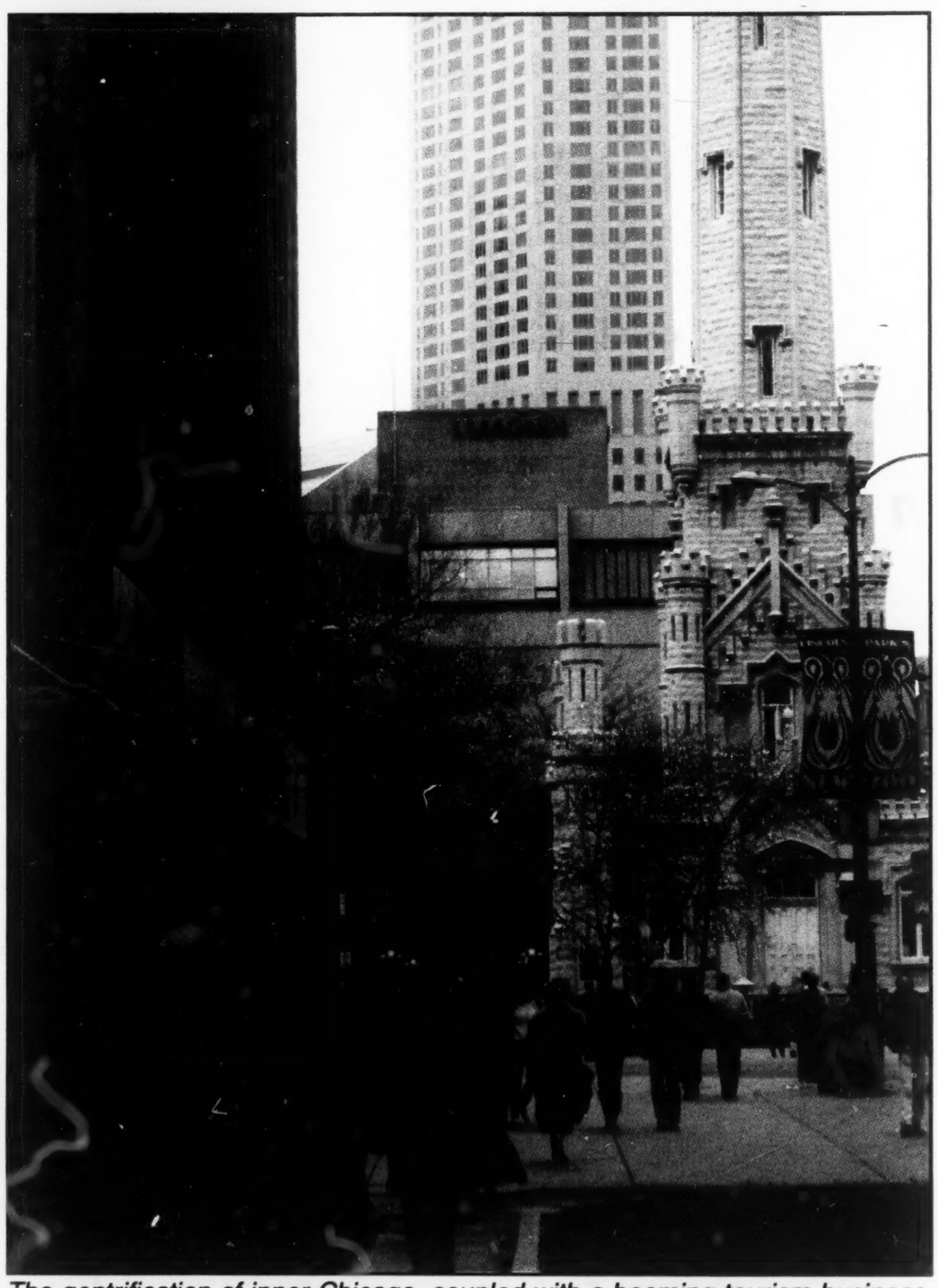
However, the *Tribune* reports that malls to the north of the city, in Lake County and on the Wisconsin border, have been drawing significant numbers of shoppers who formerly drove south toward Chicago, a disruption of usual traffic patterns.

To date, downtown Chicago has not benefited much from the abandonment of regional malls. That should change, however, as the inner city develops its more rundown physical plants, and new and exciting retailers move in.

Unlike the strong home improvement market, home fashions retailing is in disarray. Formerly strong market presences like Polk Bros., Scandinavian Design, John M. Smyth, and Colby's are in a state of flux, in some cases closing stores, and only the updated Pier 1 seems to be doing well.

The revamped Sears may return to its former dominance in this market, but it appears, according to the *Tribune*, that there is plenty of room, particularly given the high rehab rate, for an innovative retailer along the lines of IKEA to make an impact here.

Overall, it appears that while Chicago proper may be understored, it is a strong and very competitive market. The closing of several Zayre stores has perhaps created a vacuum at the lower end of the market, but on the whole, newcomers will have a difficult time attracting customers in the downtown area. Growth potential is mainly focussed in the wealthier suburbs, including understored counties like Kane and McHenry.



The gentrification of inner Chicago, coupled with a booming tourism business, have turned North Michigan Avenue into a mecca of high-end specialty stores.

Wal-Mart is in the process of ringing the city in the outer suburbs, and is already a major player there. As it continues to open stores, it will put pressure on both K mart and Venture, and even more on Zayre, which recently closed several stores.

Discount Store Count: Chicago SMSA

Chain	Stores
Discount Dept. Stores	
K mart	36
Zayre	26
Venture	25
Wal-Mart	3
ALCO	2
Catalog Showrooms	
Service Merchandise	17
W. Bell	5
Warehouse Clubs	
BJ's	3
Sam's	2
Warehouse Club	2
Hypermarkets	
Auchan	1
Total:	**122**

Source: DSN *research*

IMRA '89: The Wholesale Club

Wholesale Club Beats Midwest Jinx

INDIANAPOLIS — Regional membership warehouse retailer The Wholesale Club has finally beaten the Midwest jinx.

After showing a year-end profit for the first time since its founding, The Wholesale Club is now planning to beef up its merchandising strategy to keep the black ink coming.

The Wholesale Club faces a double-pronged problem in dealing with its competitors. It must compete with national and regional warehouse clubs; at the same time, it competes in many general merchandise areas with national discount stores like K mart.

"We've learned how to do business in the Midwest," said Wholesale Club president James Berk.

According to Berk, the company competes with conventional discounters by offering merchandise and packaging in ways that K mart, for instance, can't.

"The world doesn't need more Crest at 99 cents," he said. "But it does need a six-pack. K mart may offer a great price, but they'll have a limit of two per customer. We offer a great price every day, and we'll sell a pallet if that's what someone wants."

Competing against other wholesale clubs like Sam's is a bit trickier. Management regularly shops its competitors, and relies on sensitivity to its customers' needs to differentiate it from other clubs.

Moving quicker than most other warehouse operations, The Wholesale Club will install front and back end scanning this year, which Berk said will allow it to more quickly identify fast-moving and slow-moving items, so that the company will be able to get into and out of product areas quickly.

"Warehouse clubs have very distinct needs" compared to traditional discount stores, said vice president, MIS Ken Crawford. "We move faster and get in and out of products more often than do most retailers; we have to account for the cost of a product on a daily, not yearly, basis. The new technology will allow us to do that."

The 21-unit membership warehouse club plans to further refine its operating philosophy to build appeal among Midwest shoppers, according to vp, merchandising Ron Mitchum.

"One of our major goals is to continue to develop our apparel sales into a predictable, high-volume business," Mitchum said. Most membership clubs stick to the basics in apparel.

In the past, Mitchum said, "one mistake could kill us," because apart from socks and underwear, the company had little in the apparel department that it could rely on selling in predictable amounts. "What we're looking for are products that we can be sure will do a certain amount of business per week, give or take $500," he explained.

The Wholesale Club, like other membership warehouses, has built a solid business in "consumable" apparel like basic jeans, ties, underwear and socks. However, it has branched into fashion apparel of late, and within the last year has entered, then expanded, the children's market.

"We started with basics, but once they were established, we found we could branch out a bit with little risk," Mitchum said, noting that kids' wear has become an important part of the business now. "Our customers are perhaps ideal shoppers for this product area," he noted. "They tend to be young, married business people—and very likely to have kids."

"About 65 percent of our merchandise is set," Mitchum said. "Things like legal pads and paper napkins are always going to be here; but the other 35 percent has to change constantly or we'll become stagnant and boring."

While warehouse clubs rarely compete with conventional retailers in basics areas like commercial containers of food, they do in consumable areas like apparel and consumer electronics.

To counteract customer boredom, The Wholesale Club tries to make sure that there will be something new to see every time a customer enters the store. Many times, that may mean simply switching brands, which the club does with products like televisions, VCRs and blank audio and videotape.

"Because we rotate brands, our customers understand that their preferred product will show up," Mitchum said. Brand rotation also allows the company to protect itself from out-of-stocks, which can be more damaging to a wholesale club than other retailers.

In seasonal products, the same holds true. Last year, for instance, the company carried a five-foot park bench; this year, it was replaced with a five-foot glider.

"The chances are that anyone who wanted a park bench already bought one," Mitchum said. "This gives us a better chance to sell you something."

Shorter Selling Seasons

The Wholesale Club has also attempted to compress selling seasons on some merchandise, particularly staple seasonal goods like white wicker furniture. This year, the company will sell about 20 percent less items, and will try to sell them in less time. "That will give us that much more time to try something new," Mitchum said.

The extra room and sku flexibility (total sku count is constant throughout the year) allows the company to experiment. Last year, for instance, Mitchum saw a trend developing with Epilady depilatory devices. "We endcapped it and when it took off, we intensified it with floor pallets," he said. With Epilady airfreighting new shipments when necessary, The Wholesale Club sold some $500,000 worth of the product over the last six months of 1988.

The company also has had success with products like London Fog raincoats and overcoats, which it buys in one style and a limited number of sizes.

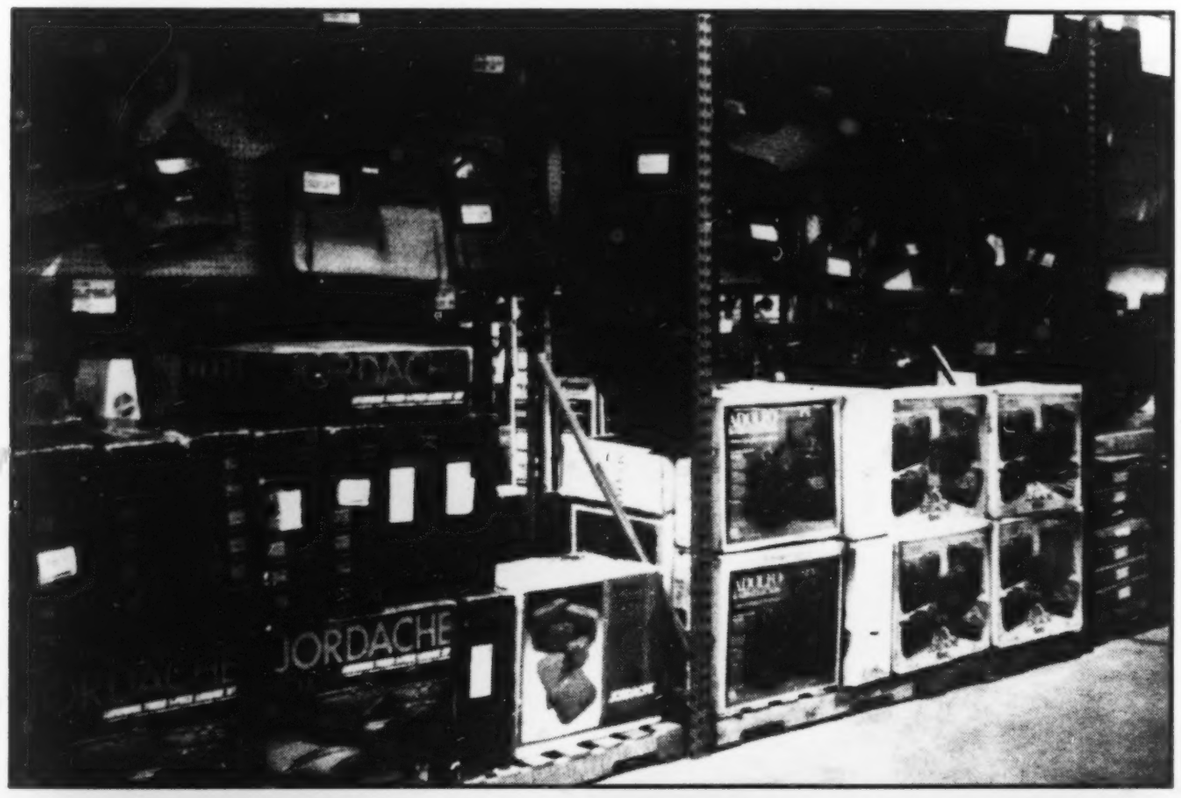
Over the years, The Wholesale Club has also gained insight into what its customers are really looking for.

"As a rule, the most upper-end product does the best," Mitchum noted. For instance, a Sharp rack system was both the most expensive and best-selling rack system carried by the club last year.

"And that really shouldn't happen," Mitchum said. "There should always be one product above the best seller, so we keep adjusting until we hit our highest price point." Increased margins and profits generally follow.

With a customer base that includes many young couples with kids, The Wholesale Club offers an expanded children's apparel department.

The Wholesale Club
Headquarters: Indianapolis, Ind.
Number of stores: 21 (3 more projected)
Average store size: 100,000 square feet
Sales (fiscal 1989): $402.1 million
Earnings (1988): $4.6 million
Percent change sales: 48%
Percent change earnings: year-earlier loss
Source: The Wholesale Club



To avoid the pitfall of being too predictable and to increase opportunities for selling relatively high-ticket items to regular customers, The Wholesale Club rotates brand names in certain merchandise categories like luggage (above left), apparel, furniture (below left) and CE. Staples like H&BA (below) are sold in volume-intensive, high-margin packages. (DSN photos)

Regional Analysis:

West North Central

Iowa • Kansas • Nebraska • Missouri
Minnesota • North Dakota • South Dakota

Drought Dampens Economic Growth

Just as the country's rural heartland climbed to its feet after the Great Farm Depression, along came last year's drought to deal the West North Central a solid blow that hampered growth in income and employment during much of the year.

However, this seven-state region, assuming normal weather for 1989, should see farm income rising by 20 percent, according to *DSN*/Mount Economic Consulting.

IMRA 1989

DSN/Mount is figuring on a 3.4 percent rise in discount store sales this year, just slightly above the 3.3 increase for the country as a whole. That increase should bring total general merchandise discount store sales to $8.9 billion.

This region—consisting of Iowa, Kansas, Minnesota, Missouri, Nebraska and North and South Dakota—saw a 3.1 percent rise in employment last year, according to *DSN*/Mount figures. Last year, discount store sales increased by just 3 percent.

Next year, *DSN*/Mount is calling for a 3.3 percent growth to $9.2 billion in sales.

With almost 18 million inhabitants, this region accounts for 7.3 of the country's total population. According to *Sales & Marketing Management's* 1988 Survey of Buying Power, the region is basically holding its own in terms of percentage of disposable income and retail sales based on its population. The West North Central accounts for 7.1 percent of the country's total effective buying power (disposable income) and 7.1 percent of the country's total retail sales.

In the aftermath of the drought, the food processing, electrical machinery and non-electrical machinery industries all suffered production and income declines for the first time since 1986.

According to a report from The Conference Board, the New York-based economic and business forecasting firm, the consensus estimate of private sector economists is that personal income increased by about 6.5 percent last year, roughly 0.5 percent less than in 1987. "Lingering and cumulative effects of the drought are likely to dampen growth by even more this year," said the report.

However, unemployment rates in much of the West North Central region are well below the national average, hence some businesses are paying wages well above the minimum for low-skilled workers.

In the drought aftermath, the food processing, electrical machinery and non-electrical machinery industries all suffered production and income declines for the first time since 1986.

Yet over the next few years, higher agricultural production, coupled with improvements in international trade conditions, should boost production, employment and income in most of the region's manufacturing sector.

According to Data Resources, employment in the computer and farm equipment industries (as well as other non-electrical equipment industries) will grow 3 percent a year through the end of 1991, compared with 2.8 percent nationally.

All but one of the seven states in this region are among the bottom 15 states in *Inc.* magazine's recent ranking of the 50 states by new jobs and companies and overall climate for growth.

Minnesota was the only state to break into the top 30, coming in as the 29th state. Missouri (35th, down from 31st), Kansas (37th, up from 38th), Nebraska (41st, up from 43rd), Iowa (44th, up from 46th), South Dakota (47th, down from 45th) and North Dakota (49th and steady) were the rankings of the others.

The region is home to six of *DSN*'s top 100 discount chains, including Target and Best Buy, Minneapolis; Venture, O'Fallon, Mo.; Western Auto, St. Louis, and Pamida, Omaha, Neb.

K mart and Wal-Mart's incursion onto Target's home turf has apparently plateaued, at least for the time being. K mart's store count dropped by 12 units over the last 12 months, with total store count now 187. Wal-Mart, now with 159 units, showed a nine-unit decline.

However, Wal-Mart did open its third Hypermart USA in Topeka, Kan., last year, and its fourth hypermarket is scheduled to open in Kansas City, Mo., in August (see profile of Kansas City market on page 132).

Target added just one unit, bringing its store count in the region to 59.

Pamida added 13 units to reach 121 stores in operation. Dollar General, now with 96 units, added six. ALCO added five units and is now operating 62 stores.

ShopKo decided to do its expansion over the last year outside the region (see story, page 135). Within the region, it still has its 30 stores in operation.

Gibson's, at 28 units, added one; Venture was unchanged with 24 stores; Best Products added a unit to reach the 21-store count.

The smaller chains fared as follows: Jack's was unchanged with 7 units; Grandpa Pidgeon's added 2 units, now with 7; Home of Economy remained unchanged at 5 units, as did Holiday Plus with 4 units.

In most states, there is a three-way competition in market share of general merchandise discount store sales among K mart, Target and Wal-Mart. However, ShopKo and Venture are major players in some states.

Top discounters' market share percentages of total general merchandise sales by state stack up as follows:

- Iowa—K mart 10.3, Target 8.4 and Wal-Mart 6.2;
- Kansas—Wal-Mart 14.1, K mart 8.3 and Venture 2.6 (Target 1.2);
- Minnesota—K mart 6.5, Target 6.1 and ShopKo 2.5 (Wal-Mart 0.5);
- Missouri—Wal-Mart 17.3, K mart 6.1, Venture 4.4 and Target 3.0;
- Nebraska—K mart 8.5, ShopKo 6.3, Wal-Mart 6.0 and Target 3.6;
- North Dakota—K mart 13.4 and Target 8.4;
- South Dakota—K mart 14.3, ShopKo 5.7 and Target 4.9.

Future population growth for the region, according to U.S. Census Bureau projections, will be moderate through the year 2010.

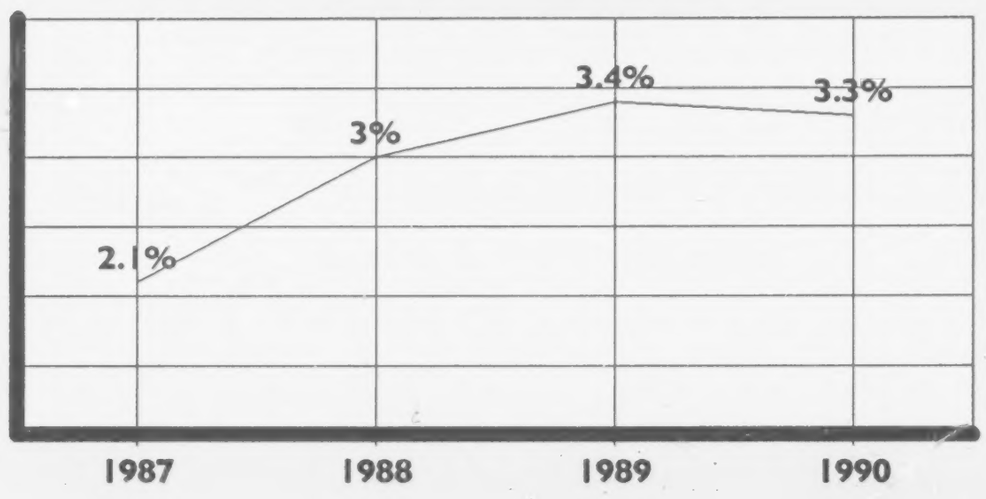
In fact, three of the region's states are projected to lose population from 1990 to 2000—Iowa, North Dakota and Nebraska.

West North Central Snapshot

The West North Central region is rebounding with its agricultural base. The summer drought reduced agricultural stockpiles and thinned herds. Assuming normal weather for 1989, farm income could rise by 20% and the West North Central states would continue to prosper. Missouri, with higher concentration in autos than other states in the region, will be the laggard.

West North Central Discount Store Sales

(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Iowa	4.7%	10.1%
Kansas	2.8	4.7
Minnesota	3.1	10.0
Missouri	2.2	3.3
Nebraska	4.1	1.4
North Dakota	2.0	4.4
South Dakota	1.8	5.8
Region:	**3.1%**	**8.4%**

*projected

Source: DSN; Mount Economic Consulting

West North Central Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		**Sam's Dept. Stores**	3
K mart	187	Smith's	1
Wal-Mart	159	Red X	1
Pamida	121	Yellow Front	1
Dollar General	96	Ace Mart	1
ALCO	62	Skagway	1
Target	59	**Catalog Showrooms**	
ShopKo	30	Best Products	21
Gibson's	28	Service Merchandise	11
Venture	24	**Warehouse Clubs**	
White Mart	8	Sam's	7
Jack's	7	The Wholesale Club	5
Grandpa Pidgeon's	7	PACE	2
Home of Economy	5	**Hypermarkets**	
Holiday Plus	4	Hypermart USA	1
Family Thrift Center	4	**Total:**	**856**

Source: DSN research

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IMRA '89: Kansas City, Mo.

Crowded K.C. Braces for Hypermart

KANSAS CITY, Mo.—This bi-state heartland city of more than 1.5 million people, which will be home to Wal-Mart's fourth hypermarket, is struggling to maintain a healthy level of economic growth.

Kansas City boasts of, among other things, having more fountains than any other city except Rome, as well as being the nation's most centrally located principal city. Ranked 25th in population and retail sales and 29th in per capita income, this 10-county metropolitan community (four in Kansas, six in Missouri) is situated within 250 miles of both the geographic and population centers of the United States.

Like other United States cities, however, Kansas City is experiencing steady losses in construction and manufacturing (especially durable goods manufacturing) jobs while seeing gains in service employment such as telecommunications, health care and air transportation.

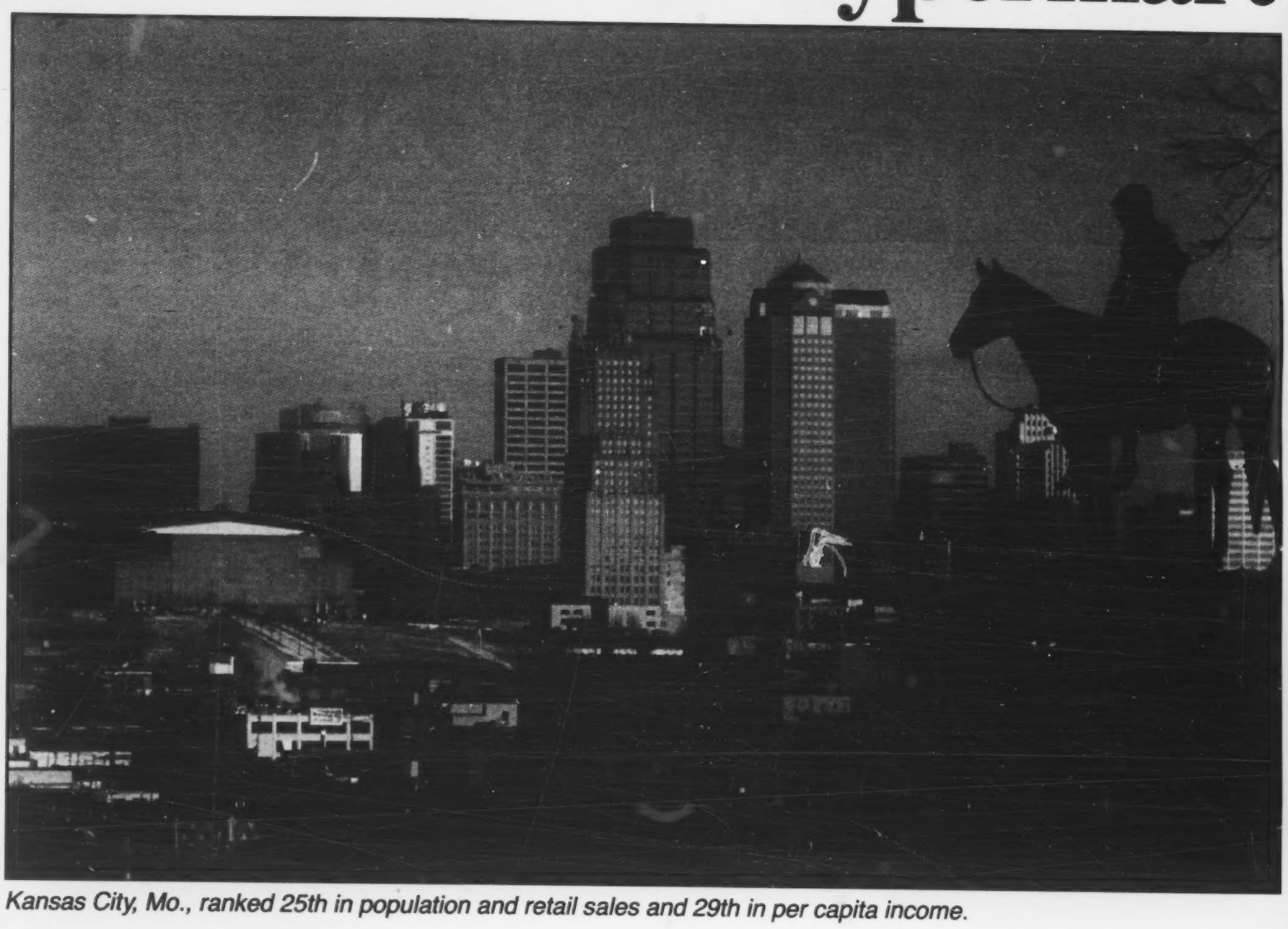
With a projected decline in inflation-adjusted retail sales in 1989, and with several local observers calling the Kansas City metropolitan area "overstored," industry observers will be watching to see what sort of miracles Wal-Mart will be able to work with its new Hypermart USA.

The 268,000-square-foot hypermarket, scheduled to open in August, anchors a new strip mall/office complex that's being built directly opposite the existing Bannister Mall, the most popular mall in the Kansas City area.

With a 7.9 percent population growth rate since 1980, Kansas City has been increasing its population during the decade at a greater rate than such cities as St. Louis (a 3.4 percent growth), Cincinnati (3.3 percent), Columbus, Ohio (6.1 percent), Indianapolis (5.3 percent), New Orleans (5.1 percent) and Portland, Ore. (6.6 percent). In 1987, Kansas City's population grew by 1.6 percent to 1,546,400.

Yet the 10-county area saw employment grow by less than 1 percent last year, down from 1.1 percent in 1987 and 2.9 percent in 1986. The Kansas City Chamber of Commerce predicted employment would rise only 0.8 percent this year and 0.3 percent in 1990. The area will add about 6,000 new jobs, mostly in services, trade, chemicals, printing and publishing.

Since 1985, the Kansas City metro area has lost about 12,000 jobs in the durable goods manufacturing sector, with steel, auto assembly and electrical equipment industries hardest hit. Fortunately, these job losses have been offset to some degree by gains in non-durable goods manufacturing, which grew by 2.1 percent last year. Printing, publishing and the chemicals sector, including pharmaceuticals, were strong in 1988.



Kansas City, Mo., ranked 25th in population and retail sales and 29th in per capita income.

Construction employment was almost unchanged last year, reflecting the slowdown in multifamily housing. Employment was supported by work on projects begun in prior years. Wholesale and retail trade employment was also sluggish, growing at the slowest annual rate since the recession. Even the service sector had a slower rate of growth, though the sector still added about 4,000 jobs in 1988. The financial sector also grew by less than 1 percent, while government employment continued to grow by 2.0 percent last year, mainly as a result of state and local employment increases.

The city's unemployment rate averaged 5.0 percent last year compared to 5.5 percent in 1987. While Kansas City's unemployment rate continued below the national average of 5.5 percent, the U.S. rate continues to fall faster than the local rate, causing the rates to converge. According to the city's Chamber of Commerce, the local and national unemployment rates will "edge upward as economic conditions weaken in the second half of the year."

Local retailers are getting used to fighting for shrinking consumer dollars. Personal income, adjusted for inflation, declined by 1 percent in 1988 to $19.8 billion, marking the second year in a row of a drop in purchasing power.

The outlook for 1989 is for total personal income to grow by about 5.0 percent to $25.8 billion, yet adjusted for inflation income is expected to be unchanged, as the rate of inflation will wipe out any rise in personal income.

However, total retail sales in 1988 in the Kansas City metro area registered the first year-to-year gain since 1984, rising by 1.9 percent to $10.6 billion. Yet part of the increase was due to rising prices, which inflated the value of goods sold. In 1987, retail sales declined by 11.9 percent.

The outlook for retail sales in 1989 is for growth of about 4.0 percent before adjusting for inflation. With the adjustment, and figuring on a 5.0 percent inflation rate, retail sales are expected to decline.

According to a local survey conducted by the Kansas City *Star & Times*, there was a decrease in the number of shoppers visiting area malls during March of this year compared to March 1988. The only mall not showing a decline was Bannister Mall.

"Retailing is fairly flat. In fact, it's declining a little," said Bill Slaughter, senior research analyst in the *Star & Times*' marketing department.

In downtown Kansas City, the most upscale department stores are Dillards (the store had been a Macy's) and The Jones Store. The big upscale center, called Country Club Plaza, is at the very northern end of downtown, with such stores as Saks Fifth Avenue, Bonwit Teller, The Sharper Image, Ann Taylor and Banana Republic.

Frederic Hron, editor of *Corporate Report*, Kansas City's monthly business magazine, said, "The area saw a lot of retail growth in the early- to mid-1980s. In the mid-'80s a lot of discounters came in—Wal-Mart, catalog showrooms, Walton's Wholesale Club [not called Sam's here because there's a local chain of discount stores based here called Sam's Discount Stores]. A new strip center was going up somewhere every time you turned your head."

Hron said that now most people think the city is overstored. He said the only real activity, in terms of new retail stores going up, has been among "niche retailers" in paper goods, business supplies, home electronics and others. He said, however, that a new Wal-Mart store—not the hypermarket—is currently being built.

Hron said that the only major complex going up now is Benjamin Plaza, the strip mall and office complex being built opposite Bannister Mall.

"The big Wal-Mart hypermarket is going in there, and I think a Toys "R" Us," said Hron.

He added that "everyone around here is aware that Wal-Mart has the reputation of knowing what it's doing, so everybody's really interested to see what's going to happen."

Discount Store Count: Kansas City

Chain	Stores
Discount Dept. Stores	
K mart	16
Wal-Mart	15
Venture	7
Sam's Dept. Stores	3
Stein Mart	1
Gibson's	1
Catalog Showrooms	
Best Products	2
Warehouse Clubs	
Sam's	4
Hypermarkets	
Hypermart USA	1
Total:	**50**

Source: DSN research

Gibson's, with one unit in Kansas City, has the unenviable task of competing against giants K mart and Wal-Mart in an overstored market. (DSN photo)

IMRA '89: ShopKo

Super-Regional ShopKo Reaches Out

GREEN BAY, Wis. — ShopKo Stores, the wholly owned subsidiary of Super Valu Stores, is one of the discount store industry's fastest-growing "super-regionals."

The 87-unit chain, based here, will add 11 new 94,000- to 104,000-square-foot units later this summer and fall, bringing the chain's store count to 98 by year-end. With 12 new stores added last year, Super Valu is in the process of growing the ShopKo chain by more than 30 percent in the 1988 to 1989 period.

To legitimately label the $1 billion-plus ShopKo a "regional" chain is to stretch the meaning of the word. With four of the new 1989 stores being in California and Oregon, which represents new markets, this discounter's store count by state line-up will look like this: 34 units in Wisconsin; 12 in Minnesota; 10 in Nebraska; nine in Utah; eight in Idaho; six in Washington; five in South Dakota; three each in Michigan, Iowa and Oregon; two each in Montana and Nevada, and one in California.

The new 1989 sites will be in Redding, Calif.; Boise, Idaho (ShopKo's second unit there); Green Bay East (a relocation), Grafton and Onalaska, Wis.; Logan and West Valley City, Utah; Kennewick and Walla Walla, Wash.; two in Eugene, Ore., and another in Bend, Ore. Plans earlier in the year for a second store in South Dakota have been scrapped for now.

ShopKo has also announced plans to build a new and larger store—94,000 square feet—on the existing ShopKo site in Kingsford, Mich., which is scheduled to open in summer 1990. Until the opening of the larger unit, the present Kingsford store will remain open. After the opening of the new store, the old store will be demolished.

Add to those expansion plans the February debut of Twin Valu, Super Valu's 180,000-square-foot hypermarket in the Cleveland suburb of Cuyahoga Falls, and ShopKo is fast becoming a discounter powerhouse. The Twin Valu hypermarket is essentially a marriage between Super Valu's Cub Foods discount food superstore and ShopKo discount general merchandise store.

This expansion is being fueled by strong sales and earnings figures, along with substantial capital infusion from parent Super Valu, which is headquartered in Minneapolis.

While specific 1988 figures for ShopKo were not available prior to the release of Super Valu's annual report this year, sales and earnings are expected to approach—and probably exceed—the chain's impressive 1987 growth numbers. In that year, sales topped $1 billion for the first time, hitting $1.1 billion, a 17 percent jump over the previous year's $940 million sales figure. Earnings rose by 14 percent to $61 million in 1987, from 1986's $53.5 million.

For the fiscal year that began in March, ShopKo will be receiving $180 million, or 38 percent, of parent Super Valu's capital budget. Also included in that budget are costs associated with the opening of a second Twin Valu hypermarket in spring 1990.

As for Super Valu, it posted sales for the 52 weeks ended Feb. 25, 1989, of $10.3 billion, a 9.9 percent increase over fiscal 1988. Earnings outstripped sales, jumping 21.1 percent to $135.4 million, reflecting an earnings-per-share of $1.81, up 20.7 percent from the previous year. The year's sales and earnings figures have set company records.

Mike Wright, chairman and ceo of Super Valu, said in a statement that he's "very pleased" with the "continuing expansion of ShopKo and the further development of our hypermarket strategy." He added that ShopKo "had enjoyed a strong Christmas selling season" and that fourth-quarter results had brought ShopKo's full-year performance in line with expectations.

Wright also said that customer response to the Twin Valu hypermarket outside Cleveland was "excellent."

The strategy for the hypermarkets—the second one will also be in the Cleveland area—includes a broader selection than other hypermarkets and a strictly ShopKo discount store merchandise presentation. The hypermarket also remains open 24-hours-a-day.

"We're not trying to change our customer," said ShopKo vice president Gene Bankers. "Our shoppers have confirmed that they like the discount store concept, and we're sticking with it."

Twin Valu carries 60,000 sku's, considerably more than most hypermarkets, and the 25,000 food sku's are about double the number generally carried by supermarkets.

While food is the primary drawing card, Twin Valu has also added dominant selections of apparel, housewares, H&BA, sporting goods, toys and seasonal goods, with lesser attention paid to departments like stationery, books, CE and jewelry.

Twin Valu has cut sku count by offering a smaller selection in some basic consumable items, like socks and underwear, for instance. This strategy is almost the opposite of the "traditional" hypermarket. Both Auchan and Hypermart USA, for instance, have ticketed CE as a power department, and both have sizeable jewelry and stationery departments. Neither is very strong in H&BA (perhaps because of margin pressure), and both are much stronger in electric home goods than in traditional housewares like plastic goods and cleaning supplies.

Bankers said that while an effort was made to stick to the familiar discount image, certain changes were made to "take advantage of the efficiencies offered by the hypermarket format."

One of those is cross-merchandising of food and non-food items, which Twin Valu is testing in a limited manner. For instance, a display of woks in hard lines is accompanied by mass displays of rice and teriyaki sauce.

"We won't do things like that often, but there's a place for it," Bankers said.

Girls' and boys' brands included Health-Tex, L.A. Gear, Chic, Wrangler, Lee, Fruit of the Loom and Garan.

The entire store is extensively signed, with departments clearly marked and other signage pointing out both brand names and Twin Valu features like toy safety testing.

ShopKo maintains a high profile in several regions, including 30 stores in the West North Central, 20 in Mountain, and 38 in the East North Central.

ShopKo will add 11 94,000-plus-square-foot units this year and a second Twin Valu in 1990.

ShopKo Stores

Headquarters: Green Bay, Wis. (parent Super Valu is headquartered in Minneapolis)
Number of stores: 87
Average store size: 99,000
Sales (1987): $1.1 billion
Earnings (1987): $61 million
Percent change sales: 17%
Percent change earnings: 14%

Source: ShopKo

ShopKo maintains dominant selections in toys and sporting goods. Not yet released 1988 sales are expected to pass 1987's record of $1.1 billion. (DSN photos)

Jordache and Manhattan are among the men's apparel brands at Twin Valu—a marriage between Super Valu's Cub Foods supermarket and ShopKo.

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Regional Analysis:

South Atlantic

Delaware • District of Columbia • Florida • Georgia
Maryland • North Carolina • South Carolina • Virginia • West Virginia

Home & Haven for Top Discounters

With well over 2,000 discount retail stores and the highest percentage increase last year in total employment compared to any other region, the South Atlantic states are among the most prosperous in the country.

Also one of the healthiest retailing regions in the country, the South Atlantic is expected to top $14 billion in discount store sales this year, according to Mount Economic Consulting. The only other region generating more discount store sales is the East North Central.

IMRA 1989

The projected rise to above $14 billion represents a 3.5 percent increase from 1988, the third-highest regional rise after the East South Central and Pacific regions. In comparison, the country as a whole will see general discount store sales rise by 3.3 percent.

The South Atlantic also saw employment increase by 4.2 percent last year, the highest figure in the country.

The region is home base to six of the nation's top 100 discounters: Best Products and Circuit City, Richmond, Va.; Rose's, Henderson, N.C.; Heck's, Nitro, W.Va.; Family Dollar, Charlotte, N.C.; and Brendle's, Elkin, N.C.

Within the region, West Virginia is having the toughest time of it, with just a 2.1 percent employment increase last year. Florida and Delaware—with employment increases of 5.4 percent and 5.2 percent, respectively—are the healthiest of the states in terms of employment.

High Rankings for Growth

In a 1988 ranking of the top states according to new jobs, new companies and overall climate for growth, seven of the eight South Atlantic states were in the top 20 (West Virginia was 40th out of 50), and Maryland, Florida, Virginia, Georgia and Delaware were all in the top 10.

Backing up the Mount figures, The Conference Board, the management and economic research group based in New York, pointed to a 2.5 percent real income per capita climb for the South Atlantic region every year from 1970 to 1987. "The fastest growth rate in the nation," said the forecaster.

However, both employment rates and the rate of discount store sales growth is expected to slacken in 1990, according to a number of sources.

According to Mount, discount stores sales will increase by just 3.3 percent in the South Atlantic, and according to The WEFA Group, the economic forecasting firm based in Bala Cynwyd, Pa., the region's unemployment rate will jump to 5 percent in 1990, compared to this year's 4.8 unemployment rate figure.

The Conference Board points to the already-announced layoffs of thousands of workers this year from among Atlanta's automotive, aircraft and aircraft assembly industries as part of reason for troubled times ahead.

The scaling back of Lockheed's operations in Georgia as its C-5B program nears completion, coupled with planned layoffs by General Motors and Pratt & Whitney, could adversely impact K mart's American Fare hypermarket as well as other discounters in the area.

As of this quarter, the South Atlantic region's total population is just under 43 million. However, for purposes of comparing buying power, in 1987 the population was just over 42 million, or 17.1 percent of the total U.S. population. The region accounted for 16.3 percent of the country's disposable income and was responsible for 17.6 percent of total retail sales.

Given the generally rosy South Atlantic picture, it isn't surprising that Wal-Mart targeted the region during the past 12-month period by adding 58 units, a 33 percent increase to a total of 236 units.

Not to be outdone, K mart—not counting the opening of its American Fare hypermarket, the region's first—also added 58 stores in the region during the past year, for a 14 percent store increase to 480 units.

While the regional discounter with a major presence is Rose's, the chain only saw 18 new units open their doors in the region, up a mere 9 percent to 208 stores.

Through major acquisitions over the last 12 months, Target has entered the region for the first time and Ames has almost doubled the number of its stores here.

Converting 30 Gold Circle/Richway units in four of the eight states, Target opened 14 units in the Atlanta area alone late last month. Target now has 14 units in Georgia, seven in Florida, six in South Carolina and five in North Carolina.

Both through its own growth and its merger with Zayre and resulting conversion of some of the Zayre units, Ames now has 83 units here, a 37-store, 80 percent increase. In addition, there remain 127 Zayre units in the region; last year there were 133.

Smaller Regionals Struggle

The smaller regionals in the area are struggling to maintain a presence here. Sky City, with 63 units, lost five stores over the last year, while Maxway lost eight units, dropping to 51 stores. Worst of all was Heck's, losing 11 units and dropping its store count to 40 this year.

But the region is really shaping up as a battleground between K mart and Wal-Mart.

According to Salomon Brothers research of estimated market share of general merchandise sales, K mart and Wal-Mart are going head-to-head in a number of South Atlantic states.

In Georgia, Wal-Mart represented 9.3 percent of all 1987 sales of general merchandise, apparel and home furnishings, compared to K mart's 8.7 percent.

In Florida, K mart captured 7.6 percent and Wal-Mart 4.4 percent, but since Wal-Mart added more units in Florida last year than K mart, those numbers will have undoubtedly tightened for 1988.

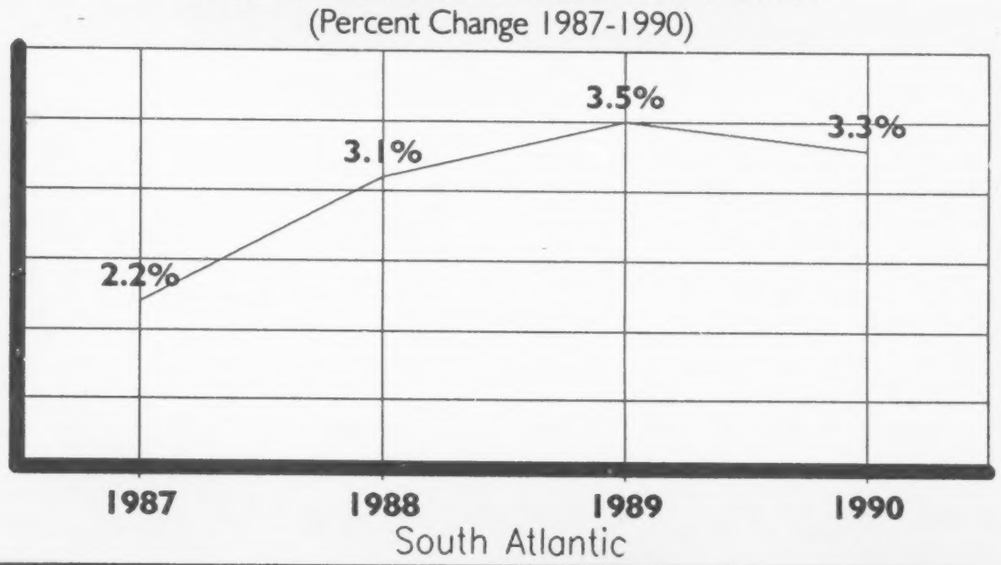
And, in South Carolina, Wal-Mart is working on an 8.5 percent share compared to K mart's 10.0 percent.

South Atlantic Snapshot

The large and diverse South Atlantic states will be among the strongest regions through 1990. Tourism, light manufacturing and high technology will remain strong. The two major negatives for the region will be a slowdown in defense spending and softness in furniture manufacturing as a result of weakness in housing and incomes. West Virginia will remain the weakest link in the region as it faces continued problems with low energy prices.

South Atlantic Discount Store Sales

(Percent Change 1987-1990)



South Atlantic

State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Delaware	5.2%	5.1%
District of Columbia	2.5	9.6
Florida	5.4	9.3
Georgia	4.2	2.5
Maryland	2.8	3.5
North Carolina	3.5	9.3
South Carolina	4.6	10.6
Virginia	4.5	4.4
West Virginia	2.1	2.3
Region:	4.2%	7.2%

*projected

Source: DSN; Mount Economic Consulting

South Atlantic Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		Catalog Showrooms	
K mart	480	L. Luria	47
Dollar General	402	Brendle's	41
Wal-Mart	236	W. Bell	12
Rose's	208	Brand Distributors	7
Zayre (Ames)	127	Evans	6
Ames	83	Mann's	5
Sky City	63	W.R. Blair	5
Maxway	51	Consumers Distributing	4
Heck's	40	David Weis	4
Target	30	John Greenan	4
Jamesway	23	Wilbro	3
Hills	18	Myers'	3
Nichols	16	Warehouse Clubs	
Magic Mart	9	Sam's	18
Lechmere	9	PACE	14
Caldor	8	Costco	9
Stein Mart	7	Price Club	7
Gee Bee	5	BJ's	4
Value City	5	Makro	3
Catalog Showrooms		Hypermarkets	
Service Merchandise	65	American Fare	1
Best Products	50	Total:	2,162

Source: DSN research

IMRA '89: Charlotte, N.C.

Economy Ripe for Big Three Invasion

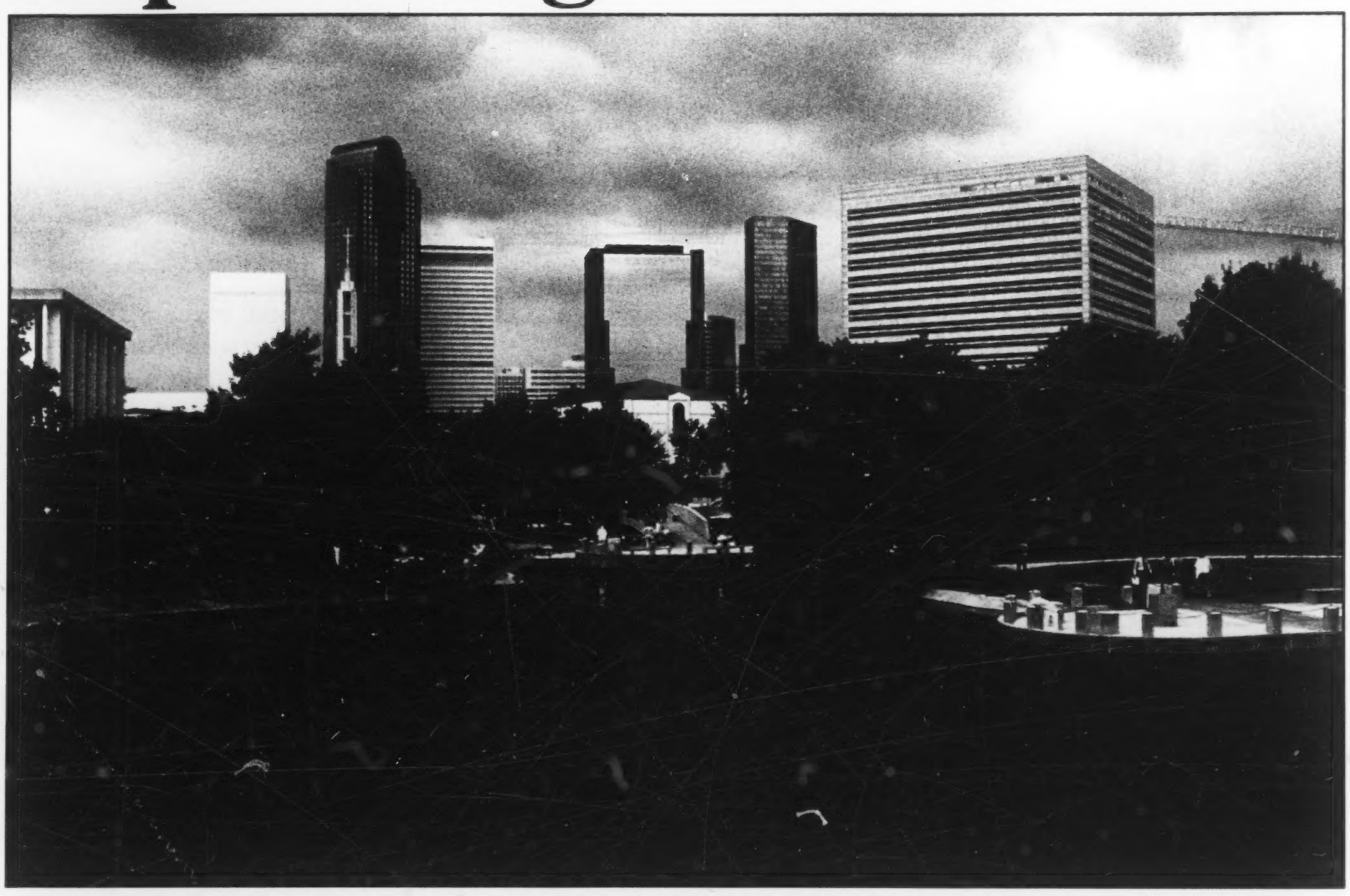
CHARLOTTE, N.C. — The possible merger of two large regional banks in the area is indicative of how recession-resistant interstate banking, along with insurance, is driving the economy of Charlotte.

At presstime, NCNB Bank, one of the two leading regional banks in Charlotte, was attempting to pull off a $2.4 billion takeover of Citizens and Southern Bank, Atlanta.

If it succeeds, NCNB would become a banking powerhouse, ranking nationally No. 6 in assets, up from 10th place.

Other testaments to the economy: K mart picked Charlotte as the locale for its second American Fare hypermarket, scheduled to open in December. And Wal-Mart, after ringing the fringes of the market with five stores, in its standard strategy, is plunging into Charlotte proper with two of its new metropolitan sized stores (see story, page 1). In addition, it is building a third of the 144,760-square-feet prototype units in nearby Gastonia.

The new Charlotte stores are part of an aggressive Wal-Mart expansion into North Carolina and Virginia that signals further trouble for Rose's Stores, the regional chain based in Henderson, N.C., and new competition for Family Dollar, headquartered in Charlotte.



With the second-highest disposable income of South Carolina's metropolitan markets, the Charlotte area is ripe for retailers.

Newcomers to Charlotte include K mart's second American Fare hypermarket, due to open in December; Wal-Mart, with two of its new metro-sized prototype units; Target, which has reopened four former Gold Circle units purchased last fall; and Stein Mart, with one unit.

In another discounting development, Target has invaded Charlotte, a new market, by reopening the four former Gold Circle (and former Richway) stores it acquired last fall. Target bought a total of 30 Gold Circle stores in the Southeast, a move that takes it one more step closer to becoming a national chain.

Another newcomer is Stein Mart, Jacksonville, Fla., which is remodeling a former Ivey's Department Store for its first entry into the market.

On the downside, Ames closed both of the Zayre stores here since acquiring the chain. One is being converted into a home center, but Ames is still trying to sell the other.

In store count, Family Dollar has blanketed the market with 20 units. "They're everywhere," said Eric Karnes, director of market research at Charter/Walker Company, a major developer.

Among warehouse clubs, Charlotte shoppers can chose from two PACE Membership Warehouses and one Sam's Wholesale Club.

K mart apparently will have the hypermarket field to itself when its opens its American Fare. It will be 160,000 square feet in size, far smaller than its first hypermarket in Atlanta that is 233,000 square feet.

As a further sign of economic growth, developers Charter/Walker are building a 60-story office tower occupying a downtown square block. NCNB bank will take half. The complex also will feature a retailing complex and a $30 million performing arts center.

When it opens in 1992, the NCNB Tower will eclipse the 42-story home office of its rival, First Union Bank.

The Charlotte/Gastonia and Rock Hall, S.C., metropolitan statistical areas boasts a population of 1.1 million and the second-highest disposable income of the state's metro markets. The median family disposable income was $25,437, as of Dec. 31, 1987, reported *Sales & Marketing Marketing Management* magazine in its 1988 survey. Only Raleigh/Durham, with its concentration of high-tech and research and development companies, exceeded that at $27,754.

Retail sales of general merchandise, appliances and furniture totaled $1.25 billion in 1987, *S&MM* reported.

Retail sales overall shot up by 12.5 percent in 1988 over 1987, the North Carolina Department of Revenue said.

With unemployment running at 2.3 percent in Charlotte, "help wanted signs are everywhere," said George Henderson, general manager of the Charlotte Merchants Association. "The town has mushroomed with apartments."

Although Charlotte is "notoriously anti-union country," wages in retailing are increasing because of higher pay at banks and insurance companies, Henderson said. "If you don't pay your people, they'll steal your labor."

"It's anybody's guess" how Target will do in Charlotte, Henderson said.

As for Wal-Mart, Henderson claims "people are very upset" about its new store coming to the Arboretum mall, located in Raintree, one of the most affluent residential areas of the city. Wealthy residents had been expecting a Lord & Taylor department store, but it pulled out after city planners cut the size of the proposed mall by more than half to alleviate traffic congestion.

Discount Store Count: Charlotte/Gastonia/ Rock Hall MSA

Chain	Stores
Discount Dept. Stores	
Family Dollar	20
K mart	13
Rose's Stores	5
Wal-Mart	5
Sky City	4
Target	4
Maxway	2
Nichols Discount City	1
Catalog Showrooms	
Service Merchandise	3
Brendle's	2
Warehouse Clubs	
PACE	2
Sam's	1
Total:	**62**

Source: DSN research

The other Wal-Mart within Charlotte's city limits is being built in a traditional strip center area of lower-income residents with a great deal of industry. That Wal-Mart "could be a hell of a place to shop after work," Henderson predicted.

Charlotte is different from many cities its size in that it still enjoys a vibrant downtown, said John Connaughton, director of the Center for Business & Economic Research at the Charlotte campus of the University of North Carolina.

The city has banking and insurance to thank for that, Connaughton said. Although retailing is a major business in Charlotte, banking is the dominant industry and the center of the economy, he said.

Insurance is another major force, he said. Last year, Royal Insurance, for example, moved its 600 headquarters employees to Charlotte from New York City, he said.

Even though the flagship store of Belke's Department Store is being torn down to make room for the new NCNB Tower, a retailing portion of the project will features numerous specialty shops.

Because Charlotte has more jobs than people, even fast-food restaurants pay at least $5 an hour, Connaughton said. "There are no minimum wage jobs in Charlotte."

PACE has tried to recruit youngsters away from supermarkets, Connaughton said. Target had trouble staffing its stores, he said. "It couldn't hire anyone."

Housing sales rose in Charlotte in March, bucking the downward national trend, Connaughton said.

Charlotte has no soft spots in its economy, he said. Banking isn't cyclical, "Bank earnings don't go down when interest rates increase."

In addition to banking, distribution and manufacturing are other major industries, said Karnes, market research director for Charter/Walker.

Because of the labor shortage, Target had to pay more to hire, Karnes said. Workers from rural areas, particularly ex-textile workers, drive 50 and 60 miles to jobs in Charlotte.

Charlotte added 35,000 jobs in 1988 for a total of 611,200, Karnes said.

"Wal-Mart will be intriguing to the public because of the publicity it generates," Karnes predicted.

Although Rose's operates stores on the fringes of the Charlotte MSA, it opened its first store in a suburban Charlotte shopping center just in February, Karnes said, in the community of Cornelius.

A Rose's spokesman said the chain doesn't regard that store, located 20 miles from downtown Charlotte, as part of the Charlotte market and plans no stores within Charlotte.

That leaves newcomers Wal-Mart and Target to slug it out with K mart for dominance. K mart operates four stores within Charlotte's city limits and nine more on the outskirts of the metro market.

IMRA '89: Rose's

New Merchandisers Bring Changes

HENDERSON, N.C. — Everything's not coming up Rose's here in the South; it's coming up Wal-Mart. But Rose's is now better positioned to withstand competition from the high profile star of the discount retailing industry.

Rose's management says it has weeded-out internal factors that have choked its growth, including selected merchandise lines, personnel and operating systems.

Rose's stores were confronted with 70 new stores that opened sometime during 1988, said company president Jack Bush. An additional 70 new competitors' outlets are expected by the end of this year, he added. Wal-Mart stores represent the majority of these new stores.

The management of the 261-unit regional chain spent the past year replacing roughly 35 percent of its merchandising staff. Included in the mass move were all three general merchandise managers and four out of nine divisional merchandise managers.

The new merchandising team, in turn, located several new vendor sources. By changing some of the manufacturers they worked with, merchandisers gained up to 30 percent more sales in some departments, said Robert Floum, vice president, merchandising.

"One of the biggest things we have going for us now is the change in our merchandising staff," Floum said. "We expected last year wouldn't be too good due to all the changes. By fall, however, we had made some major strides, compensating for losses earlier in the year," he said.

"I don't think we'll miss our plan in '89," he added.

Lucius Harvin III, chairman of Rose's, was vehement in his conviction that Rose's can withstand the competition from larger chains like Wal-Mart. He made it clear that Rose's is one regional chain that will be around for the long haul.

"We are not for sale," said Harvin. "We started in 1915. I expect to be here in 2015.

"Regional chains, if they operate well, can survive against national chains through better customer service and by being different from everybody else—there is no doubt in my mind," Harvin explained.

One example of the turnaround in category performance was in jewelry.

"The entire jewelry and accessories area was underdeveloped. We restructured the entire area. Roughly 80 percent to 90 percent of the vendors are new since November. The department has been up 20 percent," Floum said.

One of Rose's recent merchandising changes has been the addition of a private label line in apparel. Men's pants, sportswear, shirts and women's hosiery are currently available, with children's clothing, men's hosiery and other categories due to be added during this year. All of the new private label merchandise is made to the chain's exact specifications.

> ***'Regional chains, if operated well, can survive against national chains through better customer service and by being different from everybody else.'***
>
> —Lucius Harvin III, chairman, Rose's

Other categories that Rose's has improved recently include: home goods, consumer electronics, stationery, home office, kids and toys.

"We had been treating the home area as a basic business, not a fashion business. We had done a little with RTA, but within the past year we've tied together groupings. We've downplayed soft window coverings since that is not where the business is. We're not complete, but are pleased with customer response so far," said Floum.

Other merchandising changes include the development of an extensive private label apparel line. Women's hosiery, men's pants and sports shirts are among the categories where Rose's is currently offering the private label line.

The list of categories is expected to grow during the year to include children's clothing, men's hosiery and others. All of the new private label merchandise is made to the chain's exact specifications, insuring that every size 12, for example, will be comparable to every other size 12, an often overlooked detail that leads to better customer satisfaction.

Harvin cited a new ordering and scanning system as an important ingredient to the chain's continued strength. The company will soon test UPC scanners in about a dozen stores. If the tests go as planned, the current OCR-A (Optical Character Recognition) scanning system will become a thing of the past.

"A new ordering system will also be installed this year that will help shelf-to-shelf time. We'll be spending less time with replenishment," Harvin said.

The ordering system will allow the scanning wand to be used to order merchandise when passed over a shelf-edge UPC label.

Rose's is also updating its advertising approach, blending elements of everyday low pricing with a new thematic presentation in its print advertising.

"Instead of omnibus circulars, we'll have thematic circulars: white sales, kids' week—major dominant stories," said Floum.

"The percentage of ad sales are rising. During the last year they were up 3.5 percent; our goal is have that up another 3.5 percent or 4 percent."

Improving the in-stock situation on advertised items is also a high priority.

"We are especially committed to keeping in-stock on sale goods," said Harvin. "We are a tab-driven company. When we advertise something, it will be in the stores 100 percent. We're not there yet, but we will be soon."

Rose's Stores
Headquarters: Henderson, N.C.
Number of stores: 261
Average store size: 50,000 square feet
Sales (1988): $1.44 billion
Net Earnings (1988): $16.36 million
Percent change sales: 7.7%
Percent change earnings: (9.6%)
Source: Rose's Stores

Elements of everyday low pricing were incorporated into Rose's merchandising strategies last February. If an item sells well at a given ad price, then that ad price becomes the everyday low price for that item. (DSN photos)

Elements of everyday low pricing were also incorporated into Rose's merchandising strategies last February. Items that sell well at a given ad price are candidates for everyday low pricing. "If the item is selling at 80 percent on ad anyway, then that ad price will become our everyday low price," Floum explained.

Other changes in advertising approach also went into effect in February, such as the special value program. SVP items are seasonal items merchandised on endcaps and midways. The sign lists the usual price and the SVP price which is in effect for a 30-day period, "simply because it's during that month the product is in highest demand," Floum noted.

"It's our way of drawing attention to the way we give customers what they want," he said.

Regional Analysis:

East South Central

Alabama • Kentucky
Mississippi • Tennessee

Discounter Sales Still Play Catch Up

The four-state, manufacturing-intensive East South Central region is still struggling to emerge from a slow growth period that has seen little expansion among the ranks of discounters.

According to projections from Mount Economic Consulting, the region should see a 3.7 percent increase in discount store sales this year, the highest increase of any region in the country. But that projected increase seems to be more a reflection of how far the region has to go to catch up with the rest of the country than any tremendous revival.

IMRA 1989

The East South Central region—consisting of Alabama, Kentucky, Mississippi and Tennessee—is expected to account for $7.66 billion in discount store sales this year. Right now, there are less than 1,000 discount stores in the region and no hypermarkets.

The region's total retail sales rose by 7 percent last year, according to Mount data, with Kentucky—up 12.3 percent—bolstering the region. Alabama was up 4.5 percent, Mississippi 6.2 percent, and Tennessee 5.6 percent.

While economic gains have been sluggish in the region as a whole, increases in manufacturing output should accelerate growth in both Tennessee and Alabama this year and next.

Employment in the region was up 2.3 percent last year, one of the lowest increases of all the regions. Mississippi and Kentucky—at 3.1 percent and 2.7 percent, respectively—showed the greatest increase in employment, while Alabama (2.1 percent) and Tennessee (1.7 percent) lagged behind.

However, Mount forecasts indicate that increases in manufacturing output will accelerate the growth of Tennessee and Alabama through 1990. Buttressing this forecast is the ranking of both Tennessee—at No. 10—and Alabama—at No. 19, in the top 20 states in terms of new jobs, new companies and overall climate for growth, according to *Inc.* magazine. The year before, Tennessee was 11th and Alabama 21st, so both states have shown recent growth.

Kentucky and Mississippi also showed growth in the *Inc.* rankings, but Kentucky could still only manage the 30th slot (from 34th last year), and Mississippi was down in the 38th position (up from 40th).

The East South Central region, with a population of 15.5 million, represents just 6.3 percent of the country's population, according to *Sales & Marketing Management's* 1988 Survey of Buying Power. However, the region accounts for just 4.9 percent of the country's disposable income and 5.2 percent of total retail sales. With both of these percentages less than its proportionate share of the country's population, the East South Central, in terms of buying power, is not holding its own.

In fact, the region is home to only one city—Nashville—that ranks in the top 50 in the country for disposable income. And Nashville was No. 50.

Since the East South Central is the country's most manufacturing-intensive region, its economy is disproportionately dependent on the demand from other regions of the country. According to several company forecasts, the region's main durable goods industries (notably automobiles, rubber, metals, plastics and machinery) and its most important non-durable goods industries (apparel and textiles) expect a moderate increase in new orders, but these companies do not plan to bolster their workforces.

According to The Conference Board, the New York-based business and economic forecasting service, "The bulk of new jobs in the region will have to develop within the mostly urban service sector [in 1989] in order for the region's economy to grow at all." The report went on to warn that "shortages of highly skilled workers, particularly in the electrical and nonelectrical machinery and transportation equipment industries, will dampen potential employment gains among existing businesses while discouraging corporate relocations into the area."

Few Urban Areas in Region

The few urban areas in the region include Louisville and Lexington, Ky.; Memphis and Nashville, Tenn.; Jackson, Miss.; Birmingham, Montgomery and Huntsville, Ala.

In Mississippi, more favorable international trade conditions and higher farm prices should help bolster incomes this year. Manufacturing output, particularly among non-durables, should expand moderately in response to reduced import competition and increased export opportunities.

Growth in terms of more discount store units being added by major chains in the region has been rather flat over the last year.

Compared to regions like the South Atlantic, which saw chains like K mart and Wal-Mart increasing their store count by 20 percent to 35 percent, the East South Central is lagging.

Wal-Mart, with the most number of units other than the small 10,000-square-foot-and-under dollar stores, now has 251 stores, up 21 units, or 9.1 percent, from 230 units last year.

K mart saw fit to add a mere single unit in the region last year, and now operates 169 stores here.

Dollar General, with the most discount units, lost a store, bringing its total down to 336.

Heck's has gone by the wayside, closing nine of its 13 stores last year.

The other regional struggling to survive, Maloney's, is now operating a mere six units, down from 20 last year.

Other discounter store count changes from last year include: catalog showroom Service Merchandise added one unit, up to an even 40; Rose's added two stores and now operates 34 units; Hills, at 19 units, added four; Sam's Wholesale Club added four units, and now operates 17 in the region.

In terms of head-to-head competition by state between K mart and Wal-Mart, the latter is solidly ahead in three of the four states in the region and has a slim lead in the fourth in terms of market share of general merchandise sales.

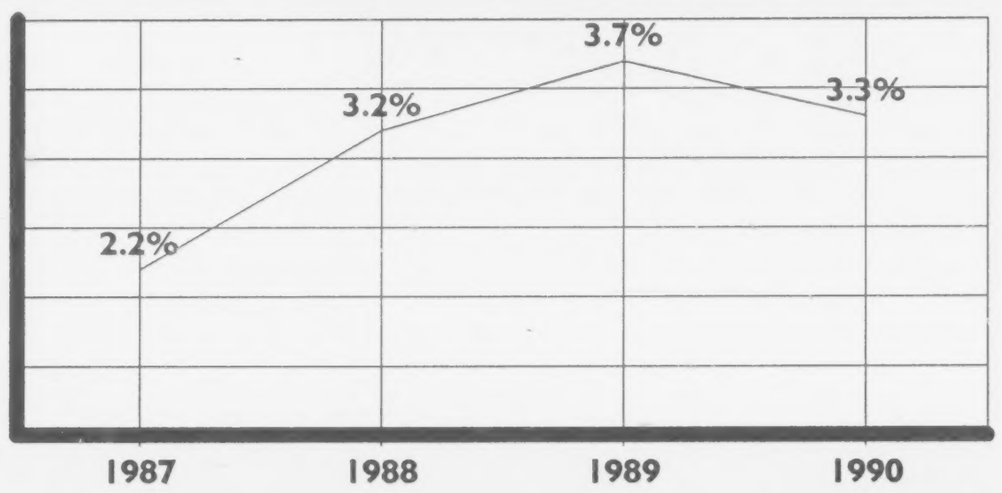
In Alabama, Wal-Mart owns 16.3 percent of all general merchandise sales, while K mart netted 9 percent. In Kentucky, Wal-Mart had 13.0 percent and K mart had 11.0 percent. In Mississippi, Wal-Mart had a dominant 19.4 percent compared to K mart's 5.7 percent. And in Tennessee, Wal-Mart held 13.0 percent compared to K mart's 9.1 percent.

East South Central Snapshot

While the East South Central states have been among the softest in the country, increases in manufacturing output will accelerate the region's performance through 1990. Alabama and Tennessee should be the stronger states; both Kentucky and Mississippi have a larger dependence on energy production.

East South Central Discount Store Sales

(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Alabama	2.1%	4.5%
Kentucky	2.7	12.3
Mississippi	3.1	6.2
Tennessee	1.7	5.6
Region:	2.3%	7.0%

*projected

Source: DSN; Mount Economic Consulting

East South Central Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		Value City	3
Dollar General	336	Van Leunen's	2
Wal-Mart	251	Harts	1
K mart	169	Swallen's	1
Rose's	34	Consolidated Sales	1
Hills	19	Harris Dept. Stores	1
Target	19	Catalog Showrooms	
Gibson's	20	Service Merchandise	40
Stein Mart	11	Goldbro	7
ALCO	6	Fred Gattas	5
Maloney's	6	Brendle's	2
Zayre (Ames)	6	Best Products	1
Ames	5	Warehouse Clubs	
Magic Mart	4	Sam's	17
Heck's	4	PACE	2
Sky City	3	Total:	976

Source: DSN research

IMRA '89: Birmingham, Ala.

A Bright Spot in a Depressed State

BIRMINGHAM, Ala. — This Southern city of nearly a million residents, which has transformed itself from a manufacturing-based center to a service-based mecca, is one of the few bright spots in a generally depressed state.

The five-county Birmingham area, which has a steadily if not dramatically increasing workforce, contains 23 percent of Alabama's population, representing 32 percent of the payroll dollars and 25 percent of both the state's total effective buying income and the state's retail sales.

In 1988, Birmingham added more than 10,000 jobs, lowering its unemployment rate to 6.0 percent from 1987's 6.7 percent. That compares to Alabama's 7.2 percent unemployment rate last year, and 5.4 percent for the entire country.

Birmingham, formerly a manufacturing center, added more than 10,000 new jobs to its service-based economy last year.

No Longer a Manufacturing Center

No longer a manufacturing center to be reckoned with, Birmingham's major employer—with over 12,000 employees—is the University of Alabama at Birmingham, a leader in medical research. One out of every ten persons in non-manufacturing jobs works in healthcare, and 86 percent of the entire workforce is in the non-manufacturing sector.

Since 1975, the city has seen a 74 percent increase in service-oriented jobs, and during the same period saw per capita personal income skyrocket by more than 90 percent.

After the university, the second-largest employer in the Birmingham area is the federal government, followed by the Jefferson County government and the Birmingham city government as the fourth-largest employer.

Of the private non-governmental employers in the top ten, the second-largest after UAB is Alabama Power Co., with 5,500 employees, followed by BellSouth Services (3,700 employees), Baptist Medical Centers (employing 3,100), Drummond Co. and Bruno's (each with 3,000 employees), and South Central Bell.

Total 1988 retail sales for the Birmingham area hit $5.9 billion last year, a modest 1.7 percent increase from 1987's $5.8 billion.

Ranked 55th in total population but 49th in suburban population, Birmingham has seen a mass exodus of persons—and hence retail establishments—from downtown.

Most of the recent construction—in 1986, counting only million-dollar-plus projects, $2.4 billion in construction was underway, announced or just completed—has been in the suburbs, especially in the retail end.

The big Woolworth's in downtown Birmingham closed at the beginning of the year, and downtown's only McRae's closed soon after.

"All the retail activity has left downtown," said Bob Bailyn, business editor of the Birmingham *News*, the city's major daily paper. "Parisian, now one of the few remaining large department-type stores in downtown, will be closing and relocating in the financial center at the upscale AmSouth/Harbert Plaza. It will reopen in October."

Discount Store Count: Birmingham

Chain	Stores
Discount Dept. Stores	
Wal-Mart	10
K mart	8
Stein Mart	1
Catalog Showrooms	
Goldbro Distributors	4
Service Merchandise	1
Warehouse Clubs	
Sam's	2
Total:	**26**

Source: DSN research

Bailyn said that the suburban population—at 2.7 million within a 100-mile radius of Birmingham—is growing, hence all the activity is in the suburbs. Surrounding the city, all within the SMA, are 39 shopping centers of 100,000 square feet or larger, totaling almost 11 million square feet of space.

Recently opened malls and plazas include a center in Irondale, a 161,000-square-foot Marketplace at Forestdale, the 500,000-square-foot Eastwood Festival Centre, the 120,000-square-foot Tannehill Outlet Mall, the 100,000-square-foot Village in Pinson, and a 200,000-square-foot addition to Eastwood Mall.

The crown jewel among these recent additions is the Riverchase Galleria, a $300 million, 3.3 million-square-foot, mixed-use retail, hotel and office complex. Having been open a full year now, the almost 2 million-square-foot retail portion of the complex has generated an average of $285-per-square-foot in sales, far above the $170 which was planned. The anchor stores include Macy's, McRae's, JCPenney, Parisian and Rich's.

The success of the Riverchase Galleria complex, located just over a mile south of the city, prompted the opening of a nearby strip center. The major tenant is a new 89,000-square-foot Wal-Mart store.

"Wal-Mart has been very aggressive in this market, and customers have responded to them," said Bailyn. "They're planning three more stores in the area this year, and last year they opened three stores."

A K mart store manager in the area said the increased competition from Wal-Mart has made the local K marts sharper merchandisers.

"We've become more competitive with Wal-Mart through necessity," said the K mart manager, who asked to remain anonymous. "Especially on 3,000 of the fastest turning items, we've had to meet Wal-Mart's prices."

The manager said that, in general, the retail climate has been good for K mart, adding that "Zayre's closing didn't hurt us at all."

The seven area Zayre units have all been closed by Ames, the last one shuttering in early April.

While the K mart store manager said a rumor is circulating that Wal-Mart is interested in at least some of the units, Bailyn said, "That would surprise me. Of the Zayre locations that are good, Wal-Mart is already in those areas, and the other locations weren't the best. Plus, the size and configuration of the stores aren't what Wal-Mart is looking for. Wal-Mart has been putting up much larger stores."

Major Activity Is in Strip Centers

The major activity is in off-price strip centers going up around the major malls in the suburbs, Bailyn said.

He added that much of the off-price activity is in the specialty warehouses. Two new Office Depots are about to open, and recent additions include a Lechmere, a Phar-Mor and a Children's Palace.

Bailyn said that Bruno's, based in Birmingham, which partnered with K mart to open the American Fare in Atlanta and will be opening a second hypermarket in Charlotte, has no plans for a superstore or hypermarket in the Birmingham market.

"We keep asking them [Bruno's officials] and they keep saying they don't have any immediate plans," said Bailyn. "But they're very successful here, and two to three years down the road, I wouldn't be surprised to see one here."

K mart has eight stores in Birmingham, and Wal-Mart has 10, including a new 89,000-square-foot unit in a new strip center near the extremely successful 3.3 million-square-foot, mixed-use Riverchase Galleria complex. (DSN photos)

IMRA '89: Bargain Town USA

Small Size & Convenience Are Draw

BIRMINGHAM, Ala. — Convenience is Bargain Town USA's trump card when gambling in markets where Wal-Mart is the top dealer.

The regional general merchandise chain manages to stay in the game by positioning its 12,000-square-foot stores within walking distance, if possible, of its low- to middle-income shoppers.

The small size of Bargain Town stores has also enabled the chain to locate about half of its 60 stores in markets too small to sustain even the smallest of Wal-Mart's prototype stores. Bargain Towns are in rural or small town markets in Alabama, Georgia and Mississippi.

"Our competitors do a wonderful job. But they do give up some shoppers due to lack of convenience," said Jay Kline, chief executive officer of the Specialty Retail Group, the division of Montgomery, Ala.-based Kinder-Care Inc. that operates Bargain Town and several other retail chains.

"Those are the customers Bargain Town pursues," said Kline.

Bargain Towns do best when they are located within the same shopping center as a national chain.

"Of course, the best of all possible worlds is to have no competition at all. But if that is not the case, than you better be where the action is," he said.

The person looking to buy a television set will go to Wal-Mart, as will the person who plans to spend a good piece of time shopping, Kline suggests. However, the individual who only has a few minutes to pick up a bottle of shampoo, or the mother who wants to buy a package of undershirts for her children will opt for Bargain Town instead of the larger retailer.

Kline recognizes that the smaller size of the Bargain Town stores means it cannot be all things to all people. He estimated that Bargain Town offers about 40 percent of the type of merchandise available at one of the national chains. Bargain Town tries to choose products that discount convenience store customers want.

"We don't offer the depth of selection or the number of departments that the national chains do. But we do have sharp prices on the merchandise we carry, and often have a lower starting price than the national chains," Kline said.

For instance, while the lowest-priced woven ladies' blouse at Wal-Mart might be $9.99, Bargain Town would have a different type of ladies blouse with an opening price point of $6. "We focus on the most-wanted categories; we don't have the fringe departments."

Unlike most other regional chains, Bargain Town has the advantage of being owned by a parent with fairly deep pockets. Revenues at Kinder-Care exceeded $500 million last year.

"What also separates us from other regionals is our capital base. Probably all other regional chains are the product of their own development. We bought chains which had already developed . . . We're able to compete as though we're a national chain because of our financial strength," Kline explained.

Merchandise for Bargain Town stores can be bought and sold at prices competitive with Wal-Mart because manufacturers can be assured of prompt, complete payment.

"I might not have the buying power, but I have the credit. You'd be surprised how having the credit has a lot to do with the prices you get," he said.

To keep prices at its retail divisions like Bargain Town competitive, the Specialty Retail Group is investing in a centralized, state-of-the-art headquarters and DC in Montgomery (see accompanying story). "Our goal is to have the most cost-efficient distribution center in the country," Kline said.

Kinder-Care bought the family-owned Bargain Town USA chain in October 1987 as the cornerstone of Kinder-Care's Specialty Retail Group.

Kinder-Care operates the country's largest chain of children's day care centers. It also owns Sylvan Learning Corp., a chain of franchised learning and diagnostic testing centers; Portrait Industries Corp., a school picture photography studio; Centerbanc Savings Association of St. Petersburg, Fla.; and several other investment and life insurance firms.

Bargain Town USA, Birmingham, Ala.: The chain makes up for the small size of its stores by locating them within walking distance of shoppers in small towns.

While not offering the selection of national chains, Bargain Town offers convenience and low prices.

Bargain Town USA
Headquarters: Birmingham, Ala.*
Number of stores: 60
Average store size: 14,000 square feet
Sales (1988): $55 million
Earnings (1988): NA
Percent change sales: 30%
Percent change earnings: NA

**Relocating to Montgomery in October 1989*
NA—not available

Source: Specialty Retail Group, Kinder-Care

Bargain Town tries to choose products that convenience store customers want, often offering lower prices than major chains.

Unlike most small regional discount chains, Bargain Town is owned by a parent with an extensive capital base, giving it much stronger buying power. (DSN photos)

New, Efficient DC Set to Open in Fall

MONTGOMERY, Ala. — Kinder-Care Specialty Retail Group is scheduled to open a new, $25 million headquarters distribution and computer center here in late September.

The goal, said chief executive officer Jay Kline, is to operate "the most cost-efficient distribution center in the country."

At the same time the new complex should help the retail divisions, reduce "sales and administration expenses over the next five to ten years," Kline added. The Specialty Retail Group currently uses 261,000 square feet of distribution center space in eight locations throughout its Southern trading area. By the time operations are consolidated into the Montgomery center, a total of 300,000 square feet will be needed, Kline estimated.

The complex will initially consist of 400,000 square feet of distribution center space and 55,000 square feet of office space. The DC can be expanded to 1.25 million square feet, if necessary. Office space can also be enlarged to total 85,000 square feet.

A mainframe IBM computer shop will replace two smaller computer shops the company previously used. Integrated merchandising, distribution center and accounting software will be used at the new facility.

"Each of these softwares are considered to be at the cutting edge. They are able to be integrated so it all speaks to each other," Kline said.

The Specialty Retail Group consists of Bargain Town discount stores, Simply $6 and Max $10 off-price apparel stores and Shoe City discount shoe stores. Shoe City is already in Montgomery. The other divisions will be moving from Birmingham to the new headquarters.

Regional Analysis:

West South Central

Arkansas • Louisiana • Oklahoma • Texas

Region Sees Light at End of Tunnel

The West South Central region continues to emerge from its Oil Patch recession, with modest job growth expected to fuel retailing.

"Without question, the regional economy has been recovering for the past 18 months," said Bernard Weinstein, director of the Center for Enterprising, Southern Methodist University in Dallas.

IMRA 1989

"Growth won't be spectacular by any stretch of the imagination," said James Newton, president of Economic Perspectives, an economic forecasting firm in Delaware, Ohio. "But compared to the past three or four years, it'll look pretty good," Newton said.

"We've seen the last of the major declines in oil prices," Newton said. "Oil's coming back, and the region recognizes the need to diversify."

Optimism for a regional resurgence can be found in the fact that Wal-Mart last year chose Wagoner, Okla., for its first SuperCenter, a combination of a Wal-Mart discount store and supermarket, and Dallas for two of its giant Hypermart USA hypermarkets.

Texas will continue to lead the region, with an expected gain of 3.5 percent in jobs compared to a regional average of about 2.5 percent. Louisiana will still trail the region, with a 1.5 percent job gain that still will provide some impetus to retail sales.

Retail sales gains will run about 5 percent, the economist predicted, with general merchandise sales doing slightly better, 5.5 percent. Big ticket items will be hurt in 1989.

General merchandise retail sales will rise by 4.5 percent in 1989 to $22.4 billion from an estimated $21.44 billion in 1988, predicted *Editor & Publisher's 1989 Market Guide*. Forecast gains will range widely: 0.1 percent for Oklahoma; 1 percent, Louisiana; 5.6 percent, Texas;and 9.9 percent,Arkansas.

Through 1990, the region will be the softest in the nation, said Richard Mount, president of Mount Economic Consulting. In a *DSN* report, Mount said, "Softness in energy prices, refining and mining will hold back the region, especially Louisiana and Oklahoma. Texas will be the strongest state in the area because of its diversified economy and a higher concentration in high technology, manufacturing in general and agriculture."

The region should see a 2.7 percent gain in jobs over 1988. Arkansas led with 3.6 percent, followed by: Texas, 3 percent; Oklahoma, 1.7 percent; and Louisiana, 1.4 percent. Total retail sales in 1988 grew by just 1.2 percent.

Discount store sales for the region should increase by 3.2 percent in 1989 to $11.44 billion from $11.09 billion in 1988. That will represent an improvement over last year's increase of 2.7 percent and 1987 gain of 1.4 percent.

In 1990, the growth rate for discount store sales will dip to 2.9 percent.

This year, personal income growth for the region will rise to 1.0 percent, adjusted for inflation, from 0.9 percent in 1988, predicted Stan Duobinis, director of regional economic forecasts for the WEFA Group, Bala Cynwyd, Pa. That will still leave it far behind the national average of 1.9 percent.

But Louisiana and Oklahoma each will see a 1.5 percent decline in personal income, Duobinis predicted.

In a positive sign, the population growth rate will increase a bit to 0.9 percent from 0.7 percent last year, Duobinis predicted. Much of the improvement will come in Louisiana, which will swing from a 0.1 percent population loss in 1988 to a 0.3 percent gain this year. Oklahoma also will turn around from the net loss of people last year to a net gain in 1989.

A critical factor for Louisiana is a bill (pending at press:time) in the state legislature to shift $200 million in state taxes from the business sector to individuals, said Dr. Loren Scott, chairman of the Economics Department at Louisiana State University, Baton Rogue. The attempt to spur the economy by cutting business taxes could go either way, he said.

Oil and gas continue to decline, Loren said, but a bright spot in the economy is the expansion of petrochemical plants. Throughout the state, 142 plants are expanding with a $4.3 billion construction program, he said.

Arkansas will see nothing really dramatic this year but instead will enjoy average growth, predicted Donald Market, director of the Bureau of Business and Economic Research at the University of Arkansas, Fayetteville.

In Texas, the most encouraging sign is an expected gain of 20,000 people in 1989, compared to a loss in 1988, said Weinstein from SMU.

For retailing, a nagging problem in Texas is that metro markets have "too many stores," Weinstein said. Shopping center developers built stores in the early '80s based on expectations of 5 percent annual job growth, he said.

It will take many years for the population and job growth to catch up to the excess stores, Weinstein said.

"I live in a fairly affluent area of North Dallas," Weinstein said. "All of my neighbors go to Sam's or to the American Wholesale Club. They get a real cross section."

In discounting, Wal-Mart and its Sam's chain continue to dominate the region. In 1987, Wal-Mart enjoyed a 21.9 percent share of general merchandise sales in Oklahoma, Jack Seibald, retail analyst for Salomon Brothers, concluded in a discount store study released this March. Wal-Mart's market share in Texas was 10.3 percent; Arkansas, 34 percent; and in Louisiana, 13.5 percent.

The market share of K mart, No. 2 in the region, was: Arkansas, 6.9 percent; Louisiana, 6.8 percent; Oklahoma, 4.3 percent; and Texas, 6.4 percent.

Another indicator of the contest: in the small town of Owasso, Okla., K mart closed its store just after Christmas, surrendering the field to Wal-Mart, the only other discounter in town. That trimmed K mart's store count in Oklahoma to 17 from 18, while Wal-Mart increased its units to 80 from 75. It operates five Sam's in the state.

In the entire region during the past year, Wal-Mart opened a net total of 33 additional discount stores and nine additional Sam's. K mart netted an increase of nine stores, while Target added five new units.

Last fall, OTASCO, a home and auto discount chain based in Tulsa, Okla., closed its 171 stores because it was unable to finance Christmas inventory and declared Chapter 11 bankruptcy. It since has reopened 62 stores, and Neil Dikeman, director of the Center for Economic and Management Research, University of Oklahoma, predicted the chain will make it following its restructuring.

Small town retailers in Oklahoma are learning to survive in an era of Wal-Mart dominance by flocking to Wal-Mart's side to capitalize on the traffic it generates, said Dikeman. Whenever a new Wal-Mart opens, the sharper retailers tend to leave downtown and resettle next door to give customers a greater chance for one-stop shopping. Those who decline to adapt often fail.

As a result of stresses in the Texas economy, United Jewelers, a catalogger based in Houston, declared Chapter 11 last July. A year ago January, it was operating 54 showrooms. Another Texas casualty, Wilkes-Barre, Pa.,-based Jewelcor,pulled out of the Texas market, closing the last four of its Edison-Jewelcor showrooms.

Also, American Wholesale, Dallas, declared Chapter 11 bankruptcy last year. It emerged six months later after closing one of two Dallas warehouse clubs. Previously, it had closed two units in the Chicago market after less than a year of operations.

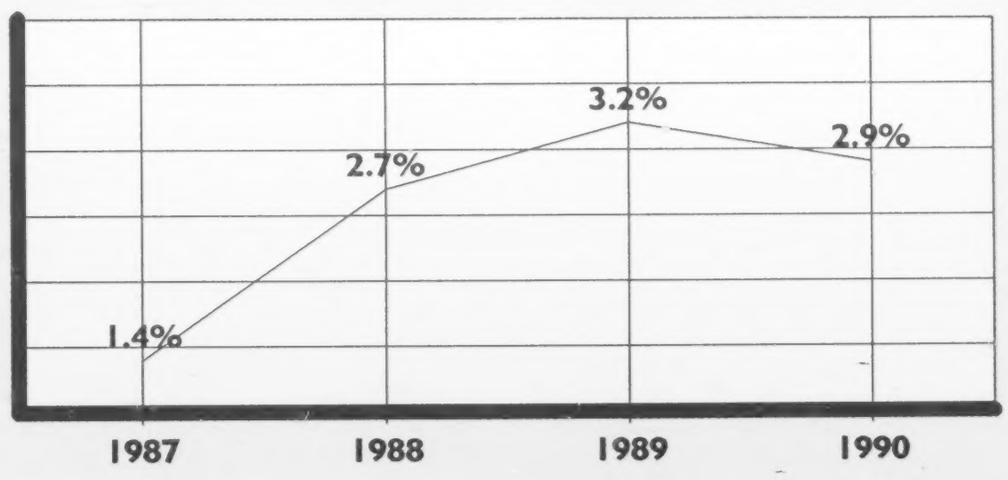
In New Orleans, Ames closed last December all 10 of the Zayre stores it acquired just five weeks before, abandoning the Louisiana market.

West South Central Snapshot

The West South Central states will be the softest region through 1990. Softness in energy prices, refining and mining will hold back the region, especially Louisiana and Oklahoma. Texas will be the strongest state in the area because of its diversified economy and a higher concentration in high technology, manufacturing in general, and agriculture.

West South Central Discount Store Sales

(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Arkansas	3.6%	1.9%
Louisiana	1.4	1.4
Oklahoma	1.7	0.1
Texas	3.0	1.1
Region:	2.7%	1.2%

*projected

Source: DSN; Mount Economic Consulting

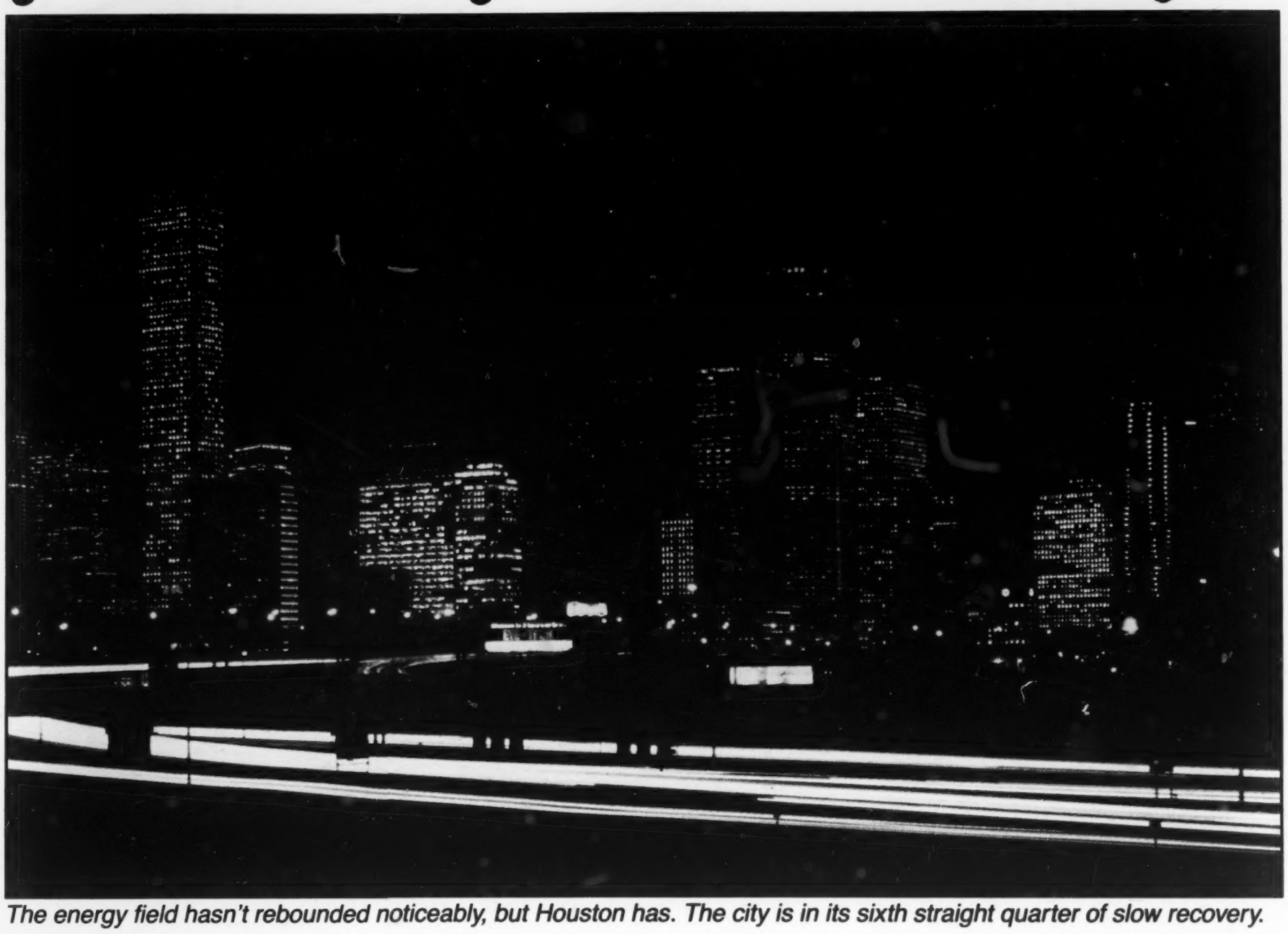
West South Central Region: Discount Store Count

Chain	Stores
Discount Dept. Stores	
Wal-Mart	452
K mart	226
Dollar General	220
Family Dollar	189
Target	64
Gibson's	26
ALCO	15
Stein Mart	7
Catalog Showrooms	
Service Merchandise	59
Best Products	18
Fred P. Gattas	1
Warehouse Clubs	
Sam's	49
American Wholesale	1
Hypermarkets	
Hypermart USA	2
Auchan	1
Total:	1,330

Source: DSN research

IMRA '89: Houston

Low-Key Recovery Oils Economy



The energy field hasn't rebounded noticeably, but Houston has. The city is in its sixth straight quarter of slow recovery.

HOUSTON — Homeless refugees from Detroit's auto production lines camping under bridges on the outskirts of town. Unemployment lines snaking around the block. Caravans of beaten-up 1971 Fairlanes trooping out of town, headed for the promised land of California. Forests of "For Sale" signs. Cobwebbed retail and office space gathering dust.

That's the image a lot of people have of Houston. A few years ago, it wasn't far from the truth. As recently as mid-1986, unemployment stood at a staggering 12.9 percent, and home loan defaults were more the rule than the exception. The energy industry was at an all-time low, and times were tough.

Well, the energy field hasn't really rebounded noticeably, but Houston has. According to a greater Houston Chamber of Commerce spokesman, Ray Viator, the city is in its sixth straight quarter of "slow but steady" recovery, but "everybody thinks we have tumbleweeds rolling through the streets."

The city has added over 80,000 jobs over the past two years, and Viator sees that growth rate continuing. Unemployment is now down to a manageable 6.2 percent, and continues to shrink.

Small businesses are relocating to Houston, and the energy industry is "consolidating," getting used to its smaller scale and getting on with business. Additionally, there has been a mini-boom in petrochemicals, brought on directly by lower oil prices.

"According to our research, there are over 150 expansion plans on paper right now," Viator said. Those plans should account for some $5.5 billion in capital investment and foreshadow a comeback in the construction industry, he added.

Arthur Gochman, president of Houston-based sporting goods discounter Academy Sporting Goods, is similarly optimistic about Houston's potential. "The city has quietly converted its economy, becoming more diverse and less energy-dependent," he explained.

Gochman has been sharply expanding Academy's presence in Houston during the past year. The company recently moved into a massive, 500,000-square-foot headquarters building formerly occupied by AT&T, and is opening three new stores this spring to bring its total store count to 26 units, nearly all in the Houston market. Its latest opening is a 100,000-square-foot prototype, considerably larger than most of its locations.

Business has been good, even during the recession, Gochman said. With sales increases of 25 percent or so over the last year, the company has seen strong sales in fishing and camping equipment, perhaps as less expensive alternatives to more expensive vacation plans. However, sales of ski equipment have also increased, and Gochman projects sales of $100 million this year, up from last year's $81 million.

"The common guy is doing OK here," Gochman said. "A lot of businesses readjusted after the oil industry crashed, so we have machine shops making diesel parts and boat pontoons now, for instance. That diversification has made Houston a healthier economy underneath, and I think it will continue to recover."

Viator agreed. "In our recovery, we're hitting singles and doubles, not home runs," he said. "It's not highly visible, but we have small businesses adjusting to new markets, then expanding. We're diversifying company by company, person by person."

Houston is the eighth-largest market in the United States, larger than Dallas, and it seems to have remained a healthy retail city even in the depths of recession.

According to one discount store manager, higher-end retailers suffered the most, although sales at their stores were off for a couple of years. Today, retailers as varied as Auchan, Marshalls, Target, Toys "R" Us, Academy, Oshman's, K mart and Fiesta Mart all seem to be doing well.

The city's varied and heavily stored restaurant culture also seem to be thriving.

Houston, as a measure of its strength as a retail market, was 84th among metro areas in per household retail sales. This compares favorably to other large cities. For instance, Chicago was only 170th in the country, although it is second in population and and third in total retail sales.

Houston residents bought some $21.8 billion in retail goods in 1987, about $2.6 billion of that at general merchandise stores. Both figures are the eighth highest in the country.

The city has about 3.3 million residents, with another 1.4 million in the suburbs. It has the sixth-largest Hispanic population in the United States and the seventh-largest black population.

The median age of Houstonians, 29.5, is significantly lower than most other major metro markets. Chicago's median age, by comparison, is 31.5.

The presence of Auchan, the European hypermarket operator, adds a bit of luster to the Houston discount market, but the market has traditionally been varied and deep. Discounters moved in with the population boom of the '70s, and they have cemented their presence through the recession, while upscale department stores and specialty outlets were having problems.

Target, Wal-Mart and K mart are the major players, and Sam's also seems to have forged a strong niche in the market.

Highland Superstores is very strong in the consumer electronics market, and Fiesta Mart, the specialty super grocery store, is perhaps the market's most successful competitor. Its combination of Latin, Oriental and other ethnic foods (including obscure Nigerian barks for tea and the like), fresh seafood (including live fish and shrimp), an incredibly varied produce department, ultra-cheap apparel (most of it, admittedly, of lower-end quality), prepared foods and various sundry kiosks selling everything from sombreros to boomboxes, has made it a favorite of non-Anglo Houstonians. It is a combination of a hypermarket and the plaza of a medium-sized Mexican town on fiesta day. The company is opening two more stores, one reported to be 180,000 square feet, and also operates several downsized convenience stores.

The city is, of course, incredibly overbuilt given its location on the plains of Texas. Both local and highway traffic are congested at nearly all hours of the night and day, and according to both Academy's Gochman and the Chamber of Commerce, there's a shortage developing in prime real estate. "A lot of people made bad decisions a few years ago when they built commercial buildings," said the Chamber of Commerce's Viador. "Today, we have a lot of empty commercial space in poor locations, and good locations are getting scarce."

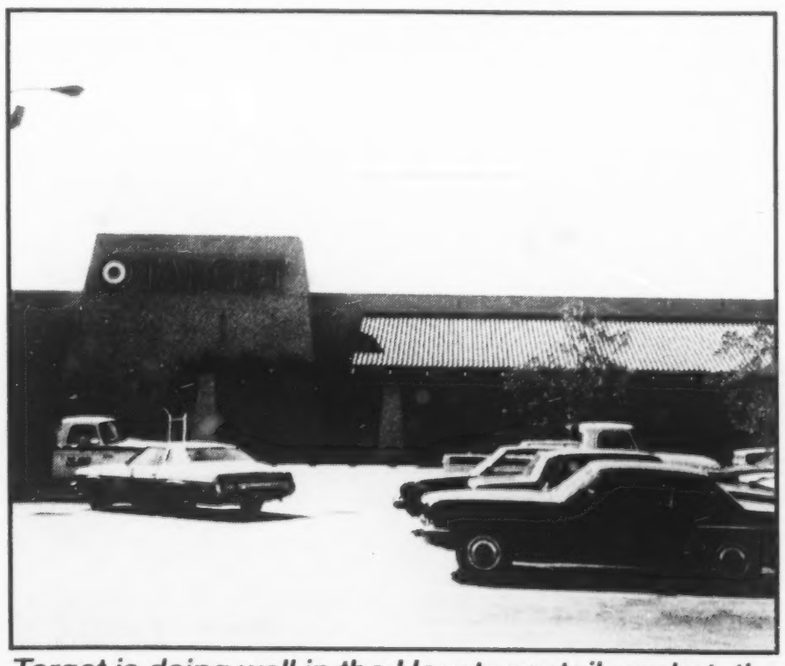
Gochman noted that the city now has virtually no desirable retail space in the 100,000-square-foot-and-over category.

Along with other economic indicators, that shortage of prime space points to a possible strong market in developing new retail centers. Whether that will materialize is open to question, but one thing is certain: Houston is no longer a ghost town.

Discount Store Count: Houston SMSA

Chain	Stores
Discount Dept. Stores	
K mart	24
Wal-Mart	21
Target	15
Catalog Showrooms	
Service Merchandise	7
Best Products	3
Houston Jewelry	2
W. Bell	1
Warehouse Clubs	
Sam's	6
Hypermarkets	
Auchan	1
Total:	**80**

Source: DSN research



Target is doing well in the Houston retail market, the eighth-largest in the U.S. (DSN photo)

IMRA '89: Auchan

CE Reaches New Heights at Auchan

HOUSTON — Auchan, the hypermarket retailer based here, has elevated consumer electronics to the status of power department to better compete with national discount and CE chains.

The French-owned firm may be the epitome of a regional retailer, 1990s-style: Each store (the second opened recently just outside Chicago) will be independently owned and will have its own buying and merchandising staff.

That philosophy will lead to highly individualized store operations, an Auchan spokesman noted, which in turn will lead to more responsiveness to local market conditions. In Houston, an important element in the competitive stance is a first-class consumer electronics department.

Like later editions of Wal-Mart's Hypermart USA, the company has spotlighted its CE department by putting it in the front of the store, hoping that its wide selection, low prices and superstore-within-a-store appearance will draw customers in and lead them to shop the rest of the store.

Auchan's strategy is to be directly competitive with national CE chains with a strong local presence, like The Federated and Highland Superstores, by carrying a wide, upscale selection of audio and video products at aggressive price levels.

"Do we sell a lot of $2,000 projection televisions? No," commented a spokesman. "Does having them create other sales? Yes."

Depth is just as important. With 22 camcorders and 68 televisions, Auchan's selection compares with virtually any specialty store. While the 20/80 rule (20 percent of units account for 80 percent of sales) still holds, the company feels that CE shoppers need a wide selection. "They're not always shopping for what they can afford today," a spokesman noted. "Often, they're shopping for what they might be able to afford tomorrow."

The hypermarket faces a tough market in Houston. In addition to the town's widely publicized financial crisis, Houston is very well-stored at the discount level. Fiesta Mart, a local high-quality grocery/lower-quality general merchandise operation with ultra-low prices is very popular with Houstonians, particularly the city's large Hispanic population. Sam's Wholesale Club, Target, Marshalls, K mart, Toys "R" Us and many other discounters have strong, well-established presences in the city.

The company has addressed local needs by concentrating on certain popular, but highly localized, product areas. For example, the store features what might possibly be the largest crawfish display in the United States in its fresh seafood department. Given the Houstonians' love of fresh shellfish and fish, the seafood department is a very deep, well-stocked department.

In apparel, a large part of one run is given over to rodeo wear, a significant event in Houston life. The company features cowboy boots, rhinestone-studded shirts, and other Western wear in a promotional aisle near the back of the store.

Auchan also beefed up its children's apparel department because of a perceived lack of outlets in the local market. Similarly, toys is a power department in the germination stage. Located front and center in the store, the department is very competitive in price, but still lacks selection in certain hot areas. For instance, its stock of Fisher-Price products is deep, but other products, like Teenage Mutant Ninja Turtle goods, are not carried.

It is significant that Auchan has chosen consumer electronics to act as a drawing card. As the economic situation in Houston has improved, pent-up demand for "luxury" items like CD players and VCRs has been unleashed. With one major competitor in trouble (The Federated), Auchan saw an opportunity to make a power statement.

Located in the front, left-hand corner of the store, CE at Auchan is a prototypical power department. The area has wide aisles, deep displays and a wide choice of mostly upscale brands.

Prominent among those brands are Teac, Pioneer, JVC, Sony, Panasonic, Zenith, RCA, Magnavox, Brother, Canon, Minolta and Yashica.

Auchan, as a new company, had problems initially getting some market leaders to sell to it. Several suppliers envisioned a hypermarket as a wholesale club with fresh produce, and were loathe to have their products sold from warehouse racks.

Similarly, many were worried that Auchan would cherry pick their product lines, as warehouse clubs have been known to do. "We had to convince them that we would support full product offerings, not just discount a few items heavily," the spokesman said.

Auchan tends to stick to the upper end of the "good, better, best" equation, offering only limited selections at opening price points. In TVs, for instance, the price of remote models is almost indistinguishable from older clicker models, so Auchan concentrates on remote sets. Also, the supply of low-end sets has dried up as foreign manufacturers switch to alternate geographic markets (Latin America, for instance) and alternate uses for the cheap tubes (computer monitors). As a relatively new firm in the United States, it is not at the front of the line for the few low-end supplies that exist.

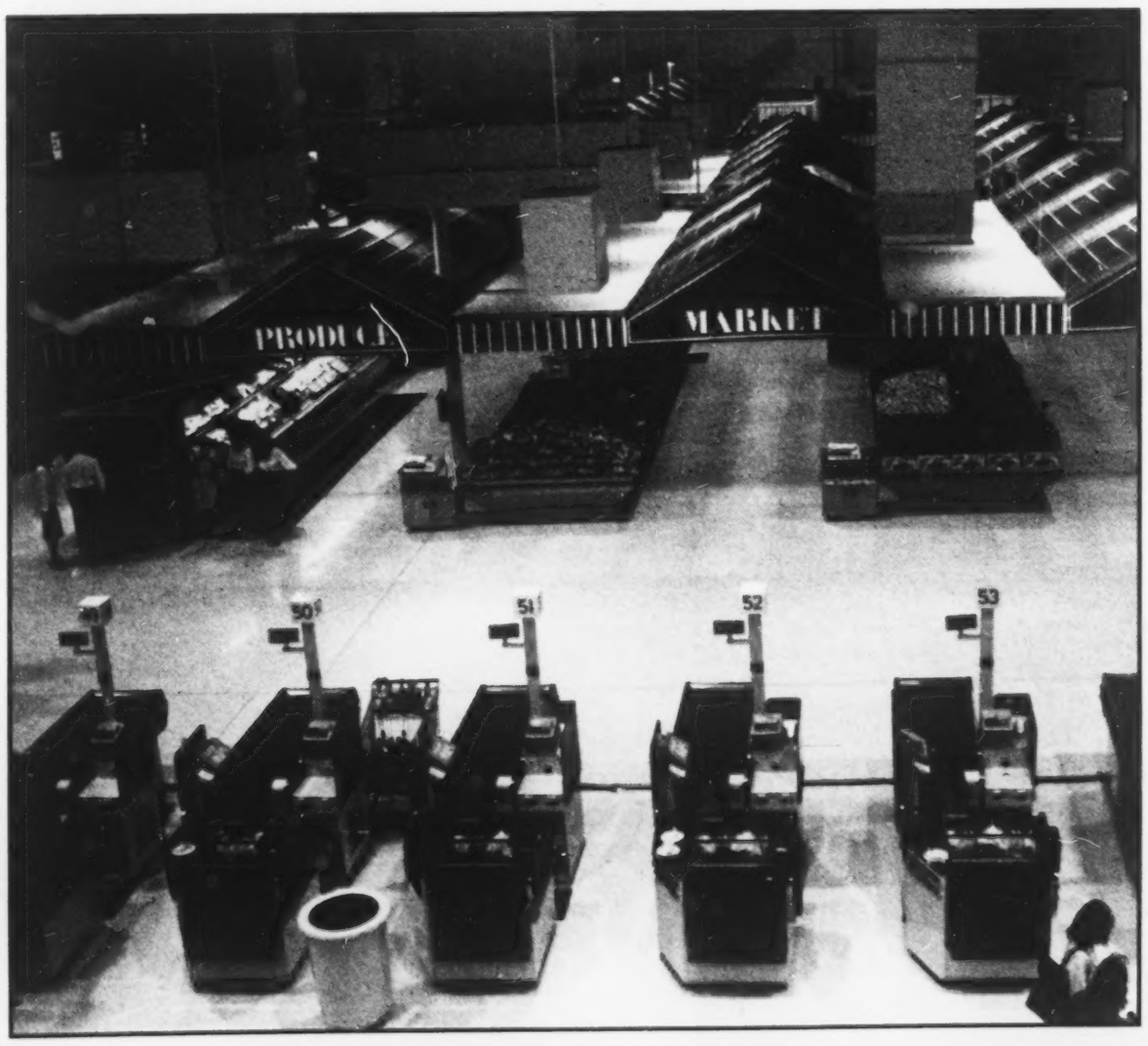
The same holds true, although not as markedly, in the CD player niche. "Basic CD players are becoming a commodity item," the spokesman said. "Name brands help margins a bit, but added technology is the key. Most technological 'improvements' don't actually give consumers very much for their money, but that's not true of disc changers."

Changer models, therefore, are selling better than basic one-disc items, and Auchan tends to favor that more profitable niche. "The first guy on the block with a 12-disc changer [against the maximum of six available today] will make a killing," the spokesman commented.

Auchan is particularly sharply priced in its photo department. "We price against local competition, but we also look at where our customers shop in real life," the spokesman said. One place they shop, evidently, is in New York, at 47th St. Photo, a major discount mail order outlet. Allowing for postage costs and the irritation factor of waiting for delivery, Auchan keeps prices on identical products close to 47th Street's.

As a spokesman noted, Auchan is still in the learning stages. "It's still to early to tinker with our concept," he said. "We're all still learning, at all levels."

Auchan has spotlighted its consumer electronics department by putting it in the front of the store, hoping that its wide selection, low prices and superstore-within-a-store appearance will draw customers in and lead them to shop the rest of the departments in the store. (DSN photos)



Auchan	
Headquarters:	Houston, Texas
Number of stores:	1 (another affiliated store opened in Chicago)
Average store size:	180,000 square feet
Sales:	NA
Earnings:	NA

NA—not available *Source: Auchan*

Regional Analysis:

Mountain

Montana • Idaho • Wyoming • Colorado
New Mexico • Arizona • Utah • Nevada

Nevada Blisters; Other States Sputter

Projected slow economic growth in the Mountain region during 1989 is expected to keep the territory lagging behind the national average for the fourth straight year. Yet this gap is narrowing as portions of the region begin a slow rebound.

IMRA 1989

Encompassing deserts, high plains and the Rocky Mountains, the region includes Arizona, Colorado, Montana, New Mexico, Nevada, Utah and Wyoming. And just as the terrain is diverse, so too is the economic outlook among the eight states.

Like a year ago, Nevada remains the region's strong point because of its solid service sector and its proximity to the West Coast. Nevada, in fact, is currently the fastest growing state in the country in percentage growth of discount store sales, according to *Discount Store News*/ Mount Economic Consulting.

Nevada and Arizona also benefit economically from a relatively secure manufacturing base of advanced technology and commodity products, noted The Conference Board, the New York-based business and economic forecasting service.

Both states have also performed well in terms of new business starts and growth of existing companies. According to *Inc.* magazine, during the past four years (between 1984 and 1988), Arizona experienced a 23.3 percent growth in jobs, while Nevada enjoyed a 25.03 percent gain.

Arizona's Economy Cools Off

Employment growth was up a strong 7.9 percent in Nevada during 1988, the highest rating among the Mountain region. In neighboring Arizona, however, employment growth was considerable lower, with the state seeing only a 1.0 percent increase over the previous year.

Looking ahead, Arizona's economic picture does not expect to brighten. According to The Conference Board, several defense contractors have already laid off workers or postponed expansion plans because of national defense spending cuts. And construction has also slowed in the state because of overbuilding during Arizona's recent spurt in growth.

So while Nevada is expected to see a 5.0 percent job growth rate in 1989 and a 4.9 percent gain in 1990, Arizona is looking at only a 2.4 percent increase this year and a 2.5 percent increase in 1990, according to Ken Ackbarali, vice president and senior economist with First Interstate Bank (FIB) Corp.

Elsewhere in the region, job growth projections are at Arizona's level or even weaker. In Utah, Idaho and New Mexico, employment projections by FIB call for 2.0 percent to 2.4 percent growth rate in 1989. However, in Colorado, job growth is minimal at 1.0 percent this year, while Montana will see only a 0.4 percent increase and Wyoming will remain flat.

Projections for the region's coming year show either comparable numbers or slight improvements in generally the weakest markets.

The economic Achilles heel of these poor ranking states is still the problematic energy sector, according to area analysts. Particularly hard hit have been Colorado, Wyoming, New Mexico and Montana.

Yet while Colorado is working to constructively improve its outlook through various business incentive plans, many of these other energy states lag "in an effort to reverse their economic circumstances," according to a report by the Corporation for Enterprise Development.

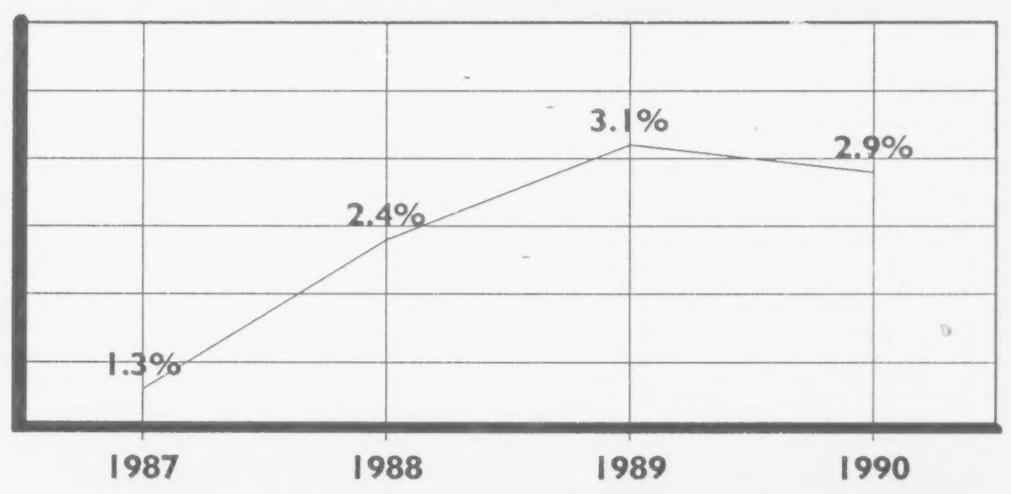
Idaho is also facing problems as construction slows and adversely affects the forestry business.

Mountain Snapshot

The Mountain states will be the second-weakest market for discount store sales through 1990. While the area has a substantial energy sector, there are some major pockets of strength. Manufacturing is a major sector of Colorado's economy; agriculture is spread across the northern half of the region; forest products in Idaho are doing well because of the decline in the dollar; and Nevada remains the fastest growing state in the country because of its service sector.

Mountain Discount Store Sales

(Percent Change 1987-1990)



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Arizona	1.0%	5.2%
Colorado	1.1	2.8
Idaho	5.5	6.9
Montana	1.4	3.0
Nevada	7.9	14.3
New Mexico	2.6	10.6
Utah	3.9	8.2
Wyoming	(1.7)	0.4
Region:	2.4%	6.5%

**projected* Source: DSN; Mount Economic Consulting

Mountain Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		Service Merchandise	12
K mart	145	Best (LaBelle's)	8
Yellow Front	115	Value House	6
Wal-Mart	46	Best (Great Western Dist.)	2
Target	41	Associated Charter	1
Pay Less	29	Dahnken	1
ALCO	25	Jefco	1
Fred Meyer	25	Warehouse Clubs	
ShopKo	20	Price Club	6
Pamida	19	Price Savers	5
Smitty's	16	Costco	4
Fed-Mart	3	PACE	4
Catalog Showrooms		Club Wholesale	3
		Sam's	1
Best Products	17	Total:	555

Source: DSN research

There are a few strengths in the weaker areas of the Mountain region. Unlike the drought-stricken states in the Midwest, the Mountain region's agriculture sector is relatively strong. This area is expected to see higher prices and significant subsidy payments, according to FIB's Ackbarali.

Another plus in the region are the price increases now benefiting non-fuel mining businesses. According to The Conference Board, a strengthening in copper and precious minieral prices has helped some of the states. In Denver, for instance, the city has "become quite a hub for precious metals," with some 23 companies now in the area, according to Tucker Hart Adams, president of the Adams Group and chief economist for Central Banks.

For retailers, all of this economic information translates to sporadic sales growth throughout the region. *DSN*/MEC research shows the Mountain portion of the country registered a 6.5 percent retail sales increase over the past year. Yet, individual state results were significantly varied.

On the high end, Nevada managed a 14.3 percent jump in retail sales, while New Mexico logged a 10.6 percent increase and Utah posted an 8.2 gain. However on the low side, Wyoming registered only a 0.4 percent increase, while Colorado's sales performance edged up 2.8 percent.

Regional Discount Store Sales Lag

Looking at strictly discount store sales, the Mountain region recorded a 2.4 percent increase in 1988 as total volume rose to $4.66 billion. The rate of increase was the lowest among the nine regions. However, future projections bring the Mountain states closer to the national average.

In 1989, discount sales are expected to rise 3.1 percent to $4.80 billion, while in 1990 the rate of increase should be 2.9 percent and sales are expected to reach $4.94 billion.

Competing for both current and future dollars are a number of full-line discounters, membership warehouse clubs and catalog showrooms.

Throughout the region, with stores present in every state, K mart holds the edge with some 145 stores in operation. Next is Yellow Front with 113; Wal-Mart, 46; Target, 41; and Pay Less Drugs, 29. Other operators include ALCO and Fred Meyer, both of which have 25 stores in the region; ShopKo, 20 units; Pamida, 19; and Smitty's, the food and general merchandise retailer, with 16 units.

Unlike some other regions, the Mountain area is not dominated by any one wholesale club. Present with almost an equal number of stores are Price Club, six; Price Savers, five; Costco and PACE, four each; and Club Wholesale, three. On a lesser scale, Sam's operates one unit in the region.

Ruling the Mountain area on the catalog showroom front is Best Products, with stores operating as Best, LaBelle's and Great Western Distributors. Combined, the chain has 27 locations in the region, while the closest competitor is Service Merchandise with 12 stores.

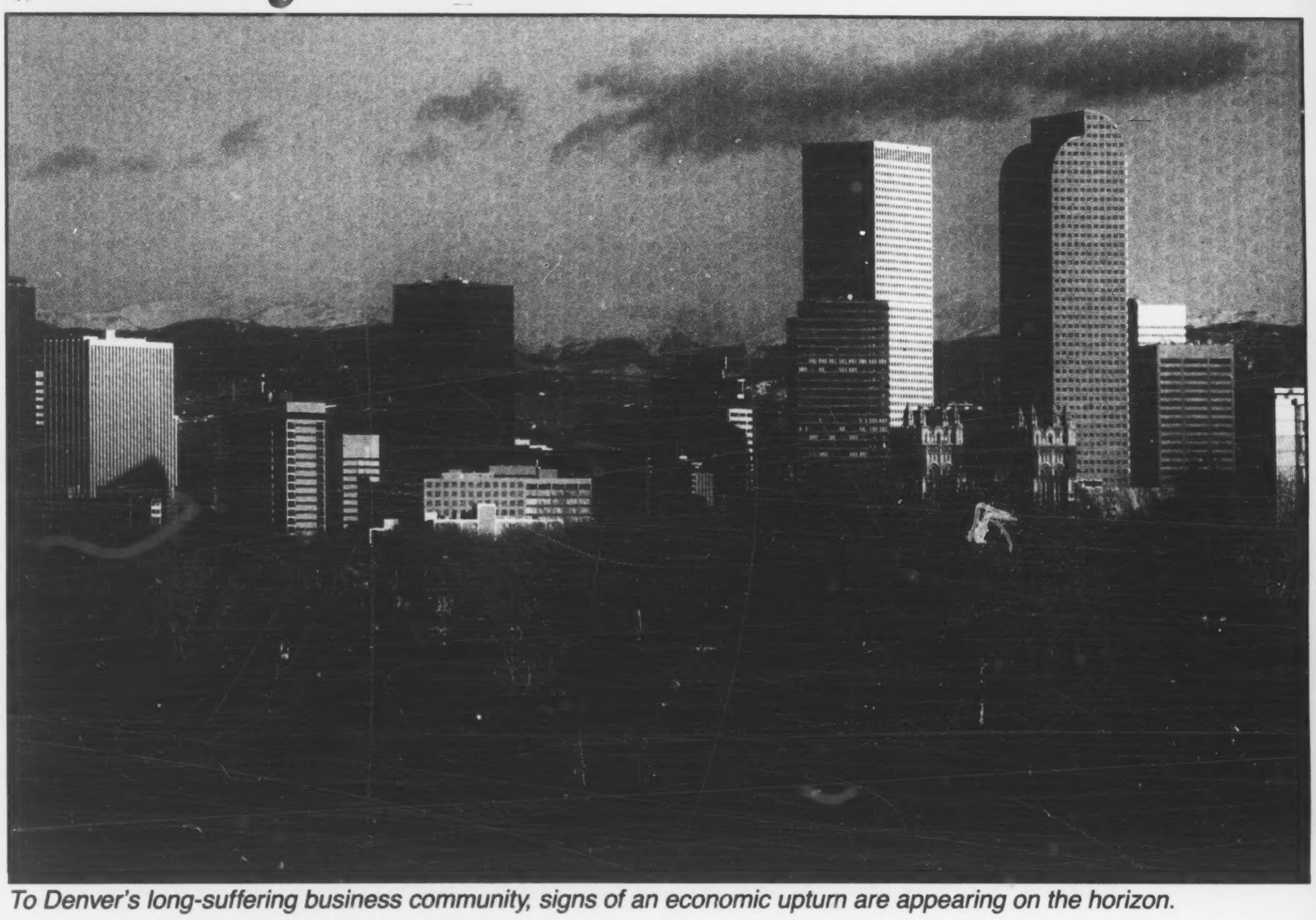
Denver's Rocky Road Nears an End

DENVER — The worst appears to be over for the Mile High city. Although the economic outlook for the next 12 months is only fair, the slump that has besieged Denver in recent years may finally end.

Located in the high plains and nestled against the Rocky Mountains, greater metropolitan Denver includes six counties and encompasses some 4,497 square miles. Yet this territory, like others, has been crippled by the fall of oil prices.

Back in the late '70s, Denver was a hot market, as oil exploration and the city's scenic environment drew people from all parts of the country. While the actual work force directly involved in oil exploration did not represent the bulk of Denver's population, the industry did reach and involve many other business sectors. As Denver-based professor of economics and president of the Center for Business and Economic Forecasting Doris Drury explained, all of the services that supported the oil business throughout the entire Rocky Mountain region were based in Denver.

The combined effect helped to create a severe economic depression in Denver when oil prices fell. Like other oil-dependent cities, Denver witnessed a loss of jobs, population declines, a drop in commercial and residential construction starts, increased office vacancy space, a weakened housing market and depressed retail sales.



To Denver's long-suffering business community, signs of an economic upturn are appearing on the horizon.

In 1988, population settled at 1.88 million, as migration slowed and was countered with a high birth rate. Denver's greatest population age group is under 30 and therefore in the peak childbearing years. The outlook by the Denver Chamber of Commerce calls for the population to start rising again and hit 2.3 million by 2000.

As the area grows and makes its slow recovery, the city can rely on a strongly educated populace to help make the transition. City figures show that 81.1 percent of the population has graduated high school, far exceeding the national average of 66.3 percent. Some 26.4 percent of the Denver residents are college graduates, compared to the U.S. average of 16.3 percent.

Several key points are working to drive the recovery in Denver—primarily strengthened manufacturing and agriculture.

A nationwide increase in export demand for high and low technological manufacturing has produced a recent gain of 10,000 jobs in Denver, according to economist Drury. He said another 10,000 new manufacturing jobs are expected by 1991.

According to The Conference Board, the New York-based economic and business forecasting service, Colorado is among the leaders in export-related manufacturing employment, with some 14 percent of the state's population employed in this sector. While by no means assured, The Conference Board said:

"Manufacturing, advanced technology and commodity producers should be the biggest beneficiaries of the export- and capital goods-led recovery in production nationally."

The only negative note, here, however, is that some of Denver's manufacturing is defense-related, and this could be hurt by national budget cuts.

Real Estate Funk Lures Businesses

Yet the area is drawing some new businesses, partially because of Denver's depressed real estate prices. With the recent decline, prime commercial space in Denver is available at rates considerably less than in other areas. In the third quarter of 1988, the office vacancy rate in Denver's central business district was one of the highest in the nation at 28 percent, according to The Conference Board. And, the drop in housing prices makes the area more affordable to workers and enables employers to pay lower wages.

Tourism is also on the rise. The 1988/1989 ski season appears to have been a record year, and the last summer's tourist trade was the best in 10 years, said Hart Adams, president of the Adams Group and chief economist for Central Banks in Denver. The latter category is especially important in increasing the area's share of the tourism business, noted Richard Wobbekind, associate director of the Business Research division of the College of Business at the University of Colorado at Boulder.

Although the energy sector continues to hurt the economy, area economists predict the industry has hit its trough. Currently, 111 oil rigs are in operation, and area predictions call for 126 in 1990 and 133 in 1991.

And while the construction sector is also problematic because of past overbuilding, two major projects could help boost this industry somewhat. Already, a new convention center is under construction, and this summer a new international airport will break ground in Denver. While the convention center is due for completion in early 1990, construction of the airport will provide jobs through the mid-1990s when the facility is scheduled to open.

Because Denver is a relatively small metropolitan area, construction of the convention center and airport can have a significant influence on Denver's job growth, explained Wobbekind.

In the non-agricultural sectors of Denver's economy, the employment outlook envisions an increase of 1.3 percent this year; 1.1 percent in 1990; and 2.1 percent in 1991.

At the same time, personal income and retail sales will also go up. Retail sales are expected to rise 3.3 percent this year; 2.5 percent in 1990; and 7.5 percent in 1991. Personal income should show a 5.2 percent gain this year; 5.5 percent in 1990; and 7.3 percent in 1991.

Positioned to take advantage of this income and retail sales growth are several discounters. Both Target (with 12 stores) and K mart (with 11 locations) maintain a major presence in Denver's metropolitan statistical area. Wal-Mart and Yellow Front also command area attention, and ALCO has one location.

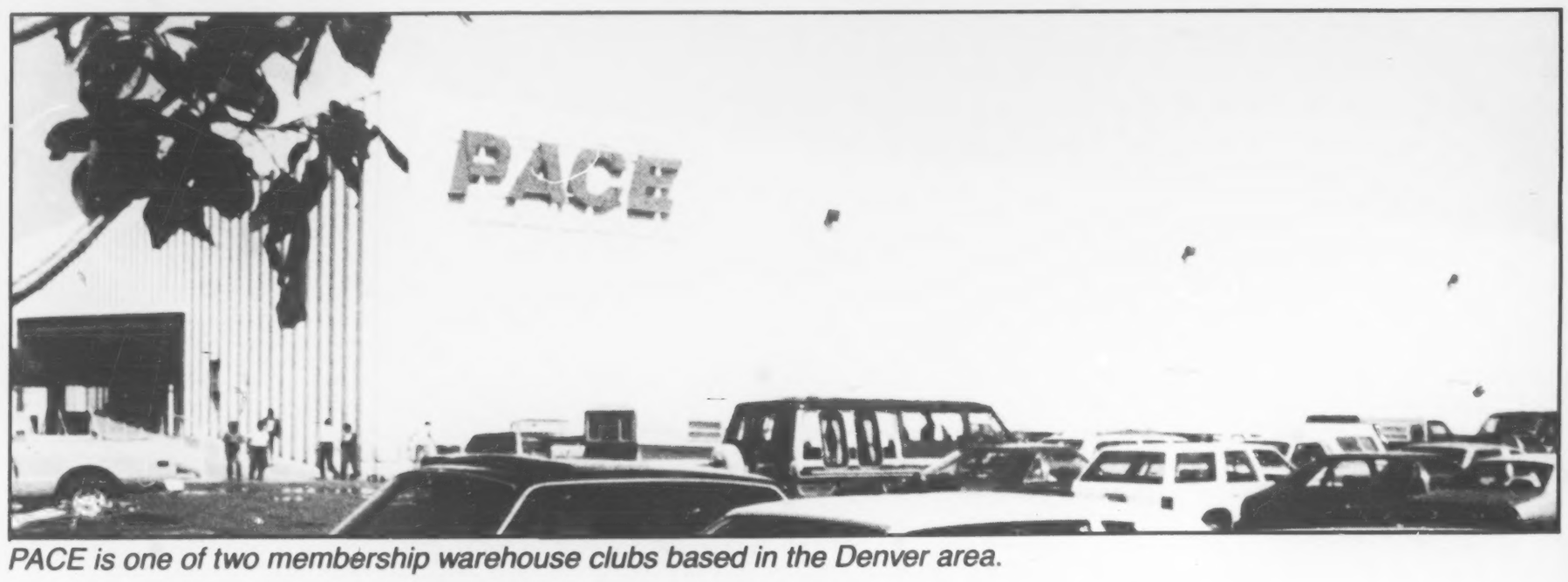
Also doing business in greater Denver are six Best and four Service Merchandise catalog showrooms, along with two membership warehouse clubs based in the Denver area—PACE and Buyers Club.

And according to analysts, it is the greater discount sector that should fare best among retailers during Denver's path toward recovery.

Discount Store Count: Denver MSA

Chain	Stores
Discount Dept. Stores	
Target	12
K mart	11
Wal-Mart	5
Yellow Front	4
ALCO	1
Catalog Showrooms	
Best Products	6
Service Merchandise	4
Warehouse Clubs	
Buyers Club	3
PACE	3
Total:	**49**

Source: DSN research



PACE is one of two membership warehouse clubs based in the Denver area.

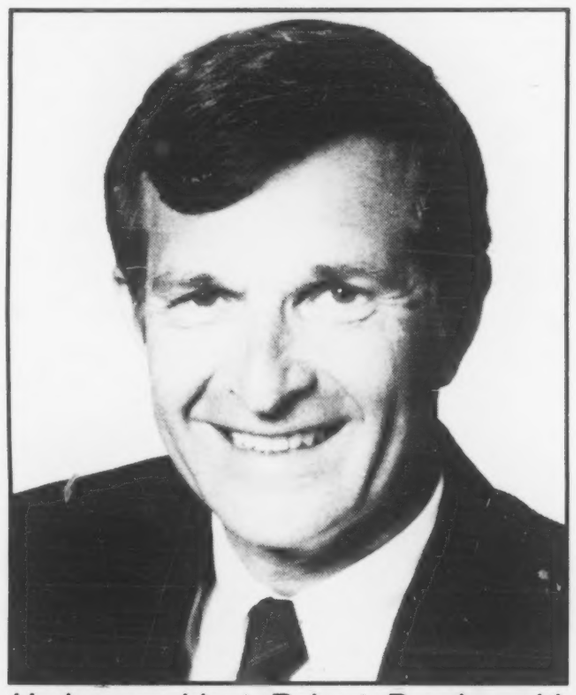
IMRA '89: Yellow Front

Closeouts Fortify Yellow Front Basics

PHOENIX, Ariz. — The addition of special buys and manufacturer closeouts, along with a dedication to remaining true to its origins as a provider of basic apparel and hard lines staples, have enabled regional discounter Yellow Front to hold its own amid competition from the three largest discount chains in the country.

Yellow Front's 165 stores are spread throughout the Mountain region. Founded more than 40 years ago as a military surplus store, Yellow Front has since updated its merchandise offering while maintaining its reputation as a provider of basic goods.

Yellow Front considers itself a value-oriented general merchandise discounter. It has kept its stores relatively small—running between 8,500 square feet and 12,000 square feet in size, compared with the 50,000-square-foot to 100,000-square foot prototypes of its competitors—and it strives hard to maintain much of the friendly neighborhood atmosphere of yesteryear.



Under president Robert Bove's guidance, Yellow Front has installed a computerized tracking and ordering system.

It is this local store image, along with several other key strengths, that enables Yellow Front to go head-to-head with national discounters like K mart, Wal-Mart and Target, and and super-regional discounter ShopKo.

Although Yellow Front has recently narrowed its mix, the retailer has not lost sight of its merchandising edge in apparel staples like work clothes and hard goods. A chief mainstay of Yellow Front's selection is a strong showing of Levi's jeans, a brand that doesn't appear in many of its competitor's stores.

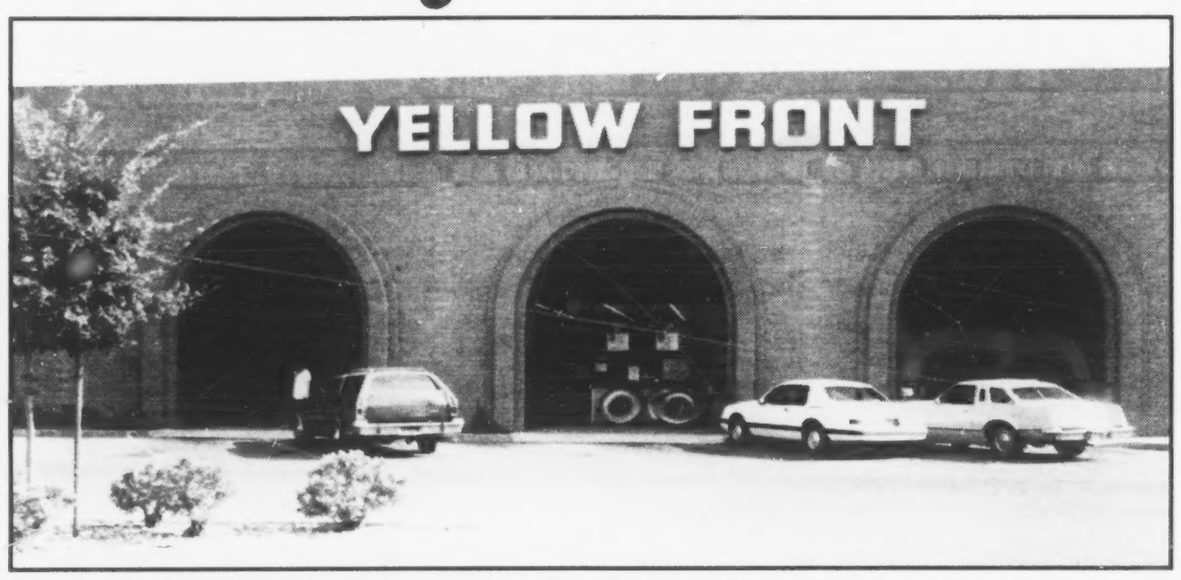
Chain Sells Fishing Licenses

Additionally, the chain is well known for its selection of sporting and camping goods, along with fishing and hunting supplies. Its merchandise assortment of goes beyond the usual discount store offerings to include items such as live bait and licenses. Yellow Front, in fact, sells more fishing licenses than any other source in its home state of Arizona.

Yet, in addition to these staples, Yellow Front has also added excitement to its stores in the last few years with the help of special buys. These items, bought on deal as closeouts or manufacturer overruns, can be anything from swing sets to lighting fixtures to tents.

One hot special buy last year included car batteries for $19.99. Yellow Front did so well with the batteries that some 31,000 units were sold.

The flexibility to purchase special buys like this is one of Yellow Front's competitive strengths. Unlike many large chains that are too large to react quickly, Yellow Front is small enough to move on opportunistic deals, while still having adequate size and capital to manage and finance the purchases.



The typical Yellow Front store contains about 12,000 square feet of selling space, compared with the industry average of 52,000 square feet.

In much the same way, the chain is also able to regionalize its stores merchandise mix. Because its marketing territory covers everything from small rural towns to vacation spots to major metropolitan areas, Yellow Front has become adept at specializing its mix to its market.

For instance, in smaller towns, where an automotive aftermarket chain does not exist, Yellow Front includes the most common auto parts in its selection.

Tests Different Formats

Yellow Front's size and management style also enables the chain to experiment with different formats. President Robert Bove, who took over the chain last summer when then-president Sean Lee left to join HomeClub (the Zayre-owned home improvement warehouse chain), has taken his merchandising expertise and applied it to the creation of a new concept called Just Bargains.

Currently numbering 10 of the chain's 155 stores, Just Bargains was created to go after the price-sensitive customer. According to Bove, this shopper has "been abandoned by the discount chains."

Just Bargains stores offer marked-down and closeout merchandise in categories that include food, toys, apparel, domestics, health and beauty aids, and limited automotive and hardware supplies.

Not only do the stores allow Yellow Front to reach additional customers, but the stores have also allowed the chain to inject new life into ailing Yellow Front locations.

All former Yellow Front locations, the Just Bargain sites were opened in predominately depressed neighborhoods—areas that could no longer support a Yellow Front, but which still held good real estate value and marketing potential.

So sites in areas such as Denver that have seen hard times, where other retailers might have abandoned the stores, Yellow Front resurrected the locations.

While Just Bargains keeps its advertising budget low, Yellow Front stores' ad dollars have increased in recent years as the chain looks to gain additional market share. Advertising was improved and, in the case of radio ads, the chain actually made fun of itself and its long-standing reputation for campiness.

Some of these ideas were initiated under Lee's leadership. It was Lee, along with other Yellow Front management and New York-based Kenmare Capital Corp., who financed a leveraged buyout of the chain from Lucky Stores in 1987. Not long after buying the chain, Lee moved to acquire the 64-store Bonanza chain to help extend Yellow Front's territory.

Now under Bove's guidance the chain has sought to keep pace with other retailers by exploring updated management information systems. Just last year Yellow Front installed a computerized tracking and ordering system to enhance both buying and distribution operations.

This year stores are receiving handheld order entry devices to help track and order inventory.

And, while the chain still has some fine-tuning in its future, Yellow Front has been holding up well against the competition. Although year-end figures for 1988 have not been released yet, prior projections placed the discounter's sales at approximately $220 million, up from $149 million the previous year.

Among the ways Yellow Front has distinguished itself from competitors are: recently introducing Just Bargains (right), a merchandising format aimed specifically at price-sensitive shoppers; organizing special buys of closeout merchandise (below); and (bottom) creating additional traffic in its hunting and fishing departments by selling live bait and fishing licenses. (DSN photos)

Yellow Front
Headquarters: Phoenix, Ariz.
Number of stores: 155 (145 Yellow Front stores and 10 Just Bargain closeout stores)
Average store size: 12,000 square feet
Sales (1988): $220 million*
Earnings (1988): NA
Percent change sales: 49%
Percent change earnings: NA

**estimate*
NA—not available
Source: Yellow Front

Regional Analysis:

Pacific

Washington • Oregon
California • Alaska • Hawaii

Nation's Bright Spot Begins to Dim

The Pacific region's economy looks solid in the coming months, thanks mostly to the strength of California and Washington.

However, the disparity between the region and the rest of the country is lessening as the nation experiences a "rolling" recession.

IMRA 1989

Making up the Pacific region are California, Oregon, Washington, Alaska and Hawaii. Although still the bright spot in the country, the Pacific region has begun to lose its luster.

Long one of the nation's economic growth leaders, California is expected to experience a slowdown in its energetic pace in the coming months, but will still outpace much of the nation. Although previously lauded for its economic diversity, the lack of one strong industry is now considered a drawback, according to David Hensley, a business forecaster at the University of California at Los Angeles.

Hensley said the state's only major stimulus has been the growing housing market. However, with increasing interest rates nationwide and the double-digit increases in home prices in California, fewer people are able to purchase a house.

California's Housing Costs Soar

In 1988 alone, California's median housing price soared 18.4 percent, according to the state's Association of Realtors. In Los Angeles, the inflation rate was even higher, with prices rising 32 percent over a six-month period.

Although new home sales and resale activity are still strong, the pace has already slowed and will continue to do so in the coming months.

Adding another negative pull on the state, and in effect the entire Pacific region, is the decline in defense spending. With numerous large companies throughout the state depending on defense-related contracts for their livelihood, the drop in spending is already having adverse affects.

According to UCLA forecasters, many defense-oriented aerospace companies are already struggling to maintain current employment levels, and the outlook calls for a 0.9 percent job loss this year and a 3.3 percent job drop in 1990.

Yet despite this adversity, both California and other Pacific states, such as Washington, are benefiting from increased commercial aircraft orders.

In Washington, where Boeing is still a major employer, airplane back orders will supply jobs well into the '90s. California, too, benefits from both Boeing and McDonnell Douglas via aircraft manufacturing and sub-contracting work, noted Federal Reserve Bank economist Carolyn Sherwood-Call.

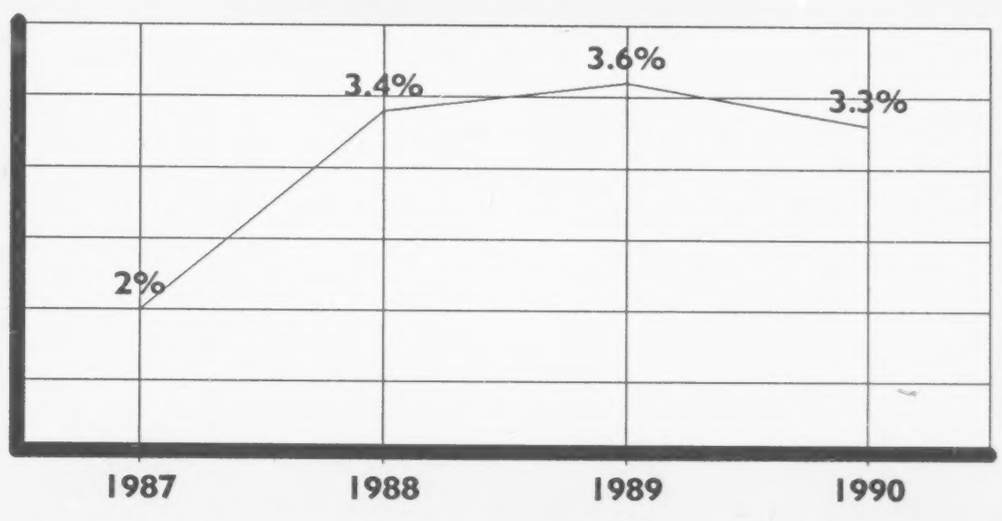
"Certainly a slowdown in defense spending is not the greatest, but a strengthening in other areas—high tech and aerospace—keeps the area in very good shape," explained Sherwood-Call.

Other positive notes in California include a strong agriculture market and healthy tourism business.

Pacific Snapshot

The Pacific states will exhibit growth at, or slightly above, the national average. California had been exceptionally strong during the current expansion, but a slowdown in defense spending and problems with high new home prices will reduce the rate of gain for the next two years. Oregon and Washington are very strong now as domestic production and exports of lumber and wood products are growing. This advance is not sustainable as the U.S. economy slows and national housing starts weaken. Alaska remains troubled by its energy sector. Hawaii will slow somewhat, propelled forward by tourism, but restrained by defense and construction activity.

Pacific Discount Store Sales



State	Employment Percent Change Year Ago	Retail Sales Percent Change 1987-1988
Alaska	2.0%	1.0%
California	3.6	6.4
Hawaii	3.8	3.5
Oregon	5.1	11.5
Washington	5.4	7.6
Region:	**3.9%**	**7.1%**

**projected*

Source: DSN; *Mount Economic Consulting*

The economy of the state of Washington is buoyed by strong aluminum, shipping and electronic industries, according to The Conference Board, the New York-based business and economic forecasting service.

Beyond these two states, the rest of the region has a mixed outlook.

In Oregon, domestic and export production of the lumber industry has helped the state. However, a projected nationwide housing slowdown will put a damper on the current growth rate, according to Ken Ackbarali, vice president and senior economist with First Interstate Bank Corp.

Ackbarali said Oregon will see some support, however, from computer and consumer electronics growth.

"Oregon looks pretty good for the next year or so, but it's a little more uncertain picture than Washington and California," offered Sherwood-Call.

Hawaii's outlook is also looking fairly bright because of a strong construction market, and low unemployment and vacancy rates, Sherwood-Call said. She also noted that Hawaii's tourism is also on the rise, with a portion of the increase coming from typically higher-spending visitors from Asia.

In Alaska, the state appears to have seen the worst. Although still a drag on the rest of the region because of its dependency on energy prices, Alaska is beginning to see slight economic improvements.

In fact, Alaska recorded a 2 percent employment growth in 1988 last year, while retail sales grew 1 percent.

Discount Store Sales Show Strength

As a whole, the region saw retail sales climb some 7.1 percent in 1988, with the largest growth rate coming from Oregon's 11.5 percent increase.

Discount store sales alone grew by 3.4 percent—the highest among all of the nation's regions—in 1988 to $7.99 billion, according to *Discount Store News*/Mount Economic Consulting.

In 1989, the Pacific region is expected to outpace the national growth rate of 3.3 percent. A 3.6 percent projected increase will produce some $8.28 billion in sales for the region. However, for the first time in a while the East South Central region is expected to eclipse the Pacific in percentage sales growth, with a 3.7 percent increase.

Grabbing a share of these retail dollars throughout the region are national retailers K mart and Target. K mart easily holds the edge in terms of store numbers, as the Troy, Mich.-based chain operates 218 stores in the region.

Meanwhile, Target, with 103 stores in the region, continues to increase its presence through new additions. During the past year, the Minneapolis-based chain entered Washington and Oregon for the first time, and plans call for more sites in these two states this year. Green Bay, Wis.-based ShopKo is also looking to hit these two states with stores, building on its current base of four Washington locations.

Several regional chains also command consumer dollars in their respective areas. In Southern California, locally based Fedco garners strong retail sales with its nine locations, while in the Pacific Northwest, Portland, Ore.-based Fred Meyer remains the dominant player.

Several local membership warehouse clubs also snare a portion of the Pacific region's retail volume. Seattle-based Costco operates the most sites with some 34 locations in operation, while San Diego-based Price Club has 24 sites. Added competition comes from two Mountain region-based chains PACE and Price Savers.

The region's catalog showroom business is dominated by Best Products, although Service Merchandise and Hartman's also command attention.

Pacific Region: Discount Store Count

Chain	Stores	Chain	Stores
Discount Dept. Stores		**Hartman's**	10
Pay Less	240	**Best (Jafco)**	8
K mart	218	**Volume Merchandising**	3
Target	103	**Capital Jewelry**	2
Fred Meyer	74	**Jewelcor**	2
Bi-Mart	38	**Direct Buying Service**	1
Yellow Front	27	**Jefco Merchandise**	1
G.I. Joes	10	**R. Rich**	1
Fedco	9	**Walkenhorst**	1
Gem of Hawaii	5	**Warehouse Clubs**	
ShopKo	4	**Costco**	34
Holiday Mart	2	**Price Club**	24
Tri-State Dist.	1	**PACE**	10
Catalog Showrooms		**Price Savers**	8
Best Products	41	**Club Wholesale**	2
Service Merchandise	13	**Total:**	**892**

Source: DSN *research*

IMRA '89: Sacramento

Capital's Affordability Fuels Growth

SACRAMENTO, Calif. — California's capital is currently reaping rewards for *not* being one of the state's expensive coastal cities.

Both businesses and individuals looking to escape the high cost of operating and living in major metropolitan areas such as San Francisco and Los Angeles have recently turned toward inland cities like Sacramento. Between 1980 and 1985, Sacramento's population swelled by some 13 percent, according to *Sales and Marketing Management's* 1988 Survey of Buying Power.

Once known for the gold rush that began in 1849, Sacramento has since emerged as a growing and vibrant city. Stretching through four counties and some 3,555 square miles, greater Sacramento's population now numbers some 1.3 million people.

City Attracts Young Adults

And like many of the hot and growing markets in the United States, Sacramento has a relatively young populace, with the majority of the adults aged 25 to 44 years old. By 1991, Sacramento is expected to hold some 1.45 million people.

Currently, the bulk of the citizens reside in Sacramento County. However, El Dorado and Placer counties are experiencing the greatest growth rates. Both counties are located east of the city and are reached by major freeways and mass transportation.

Supplying Sacramento's population with a large share of its employment base is the government. The state is the largest employer, followed by McClellan Air Force Base and the Sacramento County Office of Education.

Sacramento has broadened its economic base in recent years, which has been a sound economic move for the city, according to Bob Skinkle, assistant vice president and economist at Wells Fargo Bank in San Francisco. In 1980, the government employed some 34.15 percent of the population, while in 1987 that figure dropped to 29.76 percent.

Taking up the growth in the private sector are many services, trade, agriculture and construction businesses. The top three non-government employers include Aerojet General Corp., Pacific Bell and Sutter Health.

Combined, all the business sectors kept unemployment levels running between 4.9 percent and 6.0 percent during 1987 and 1988, according to state figures.

Both existing and new businesses find several Sacramento features particularly beneficial. One key attraction is Sacramento's real estate market, which boasts relatively plentiful housing at lower costs than what is available in the nearby Bay Area.

Yet, Sacramento remains close enough to San Francisco to make the inland city an ideal distribution and transportation center. Both Target Stores and Pay Less NW drug stores have opened new distribution centers in the area during the past few years.

Sacramento an Inland Port

Not only do major railroads and freeways cross Sacramento, but the city is also considered an international port because of its waterway access via the Sacramento River.

"A lot of the growth [in California] is happening in the areas that are accessible to major cities, but far enough away from the high cost of land and traffic congestion," said Carolyn Sherwood-Call, economist with the Federal Reserve Bank in San Francisco.

With housing costs half the levels of those in the Bay Area, Sacramento has attracted a steady white collar influx.

Sacramento's lower real estate prices help provides workers with cheaper-than-coastal housing prices, which in turn allows employers to choose from a large work force and pay lower-than-usual wages.

As of 1987, the median house price was $98,539, according to the city's Chamber of Commerce. This price is less than half of the $207,490 average price tag for homes in San Francisco. And unlike the 35 percent to 50 percent increases witnessed in the hot coastal cities, Sacramento's annual housing price increases have hovered around the 15 percent mark.

Yet while existing housing prices have seen a gradual increase, new residential permits have nearly doubled between 1983 and 1985 alone.

Filling these houses are residents that, as of 1985, had an annual effective buying income of $16.8 billion, some $8.09 billion of which was spent on retail sales. According to *Sales and Marketing Management*, area retail sales should reach the $12.8 billion mark by 1990.

Until the past year, K mart had been the leader among national discounters, grabbing a sizable share of retail dollars through its 13 locations. Now Target has firmly established itself in the Sacramento market with nine locations. The Minneapolis-based discounter entered the Sacramento market last year via the remodeling of several former Gemco stores.

Now these two discounters battle for consumer dollars along with membership warehouse clubs Price Savers and Price Club.

Also snaring a part of the market are three Best catalog showrooms and several off-price chains. While Marshalls and Ross Stores have operated in Sacramento for some time, T.J. Maxx entered the market a year ago. The latter chain's first site in Sacramento's Roseville suburb was the off-pricer's initial location in the entire state.

Economists expect Sacramento will continue to be a popular city for retailers. With government sectors providing steady employment and the increasing non-government industries providing economic diversity, Sacramento should remain economically sound for several years to come.

Right: Having entered the region only last year, Target now has nine units in operation in the Sacramento market. Below: T.J Maxx last year selected the Sacramento suburb of Roseville as the site of its first store in California. (DSN photos)

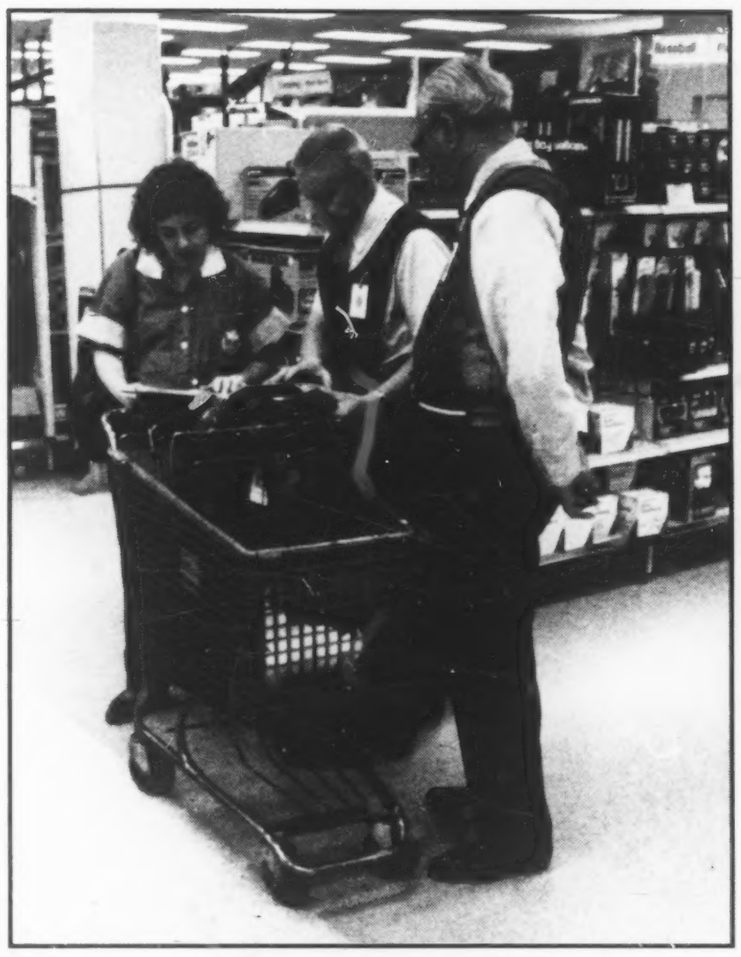
Discount Store Count: Sacramento MSA

Chain	Stores
Discount Dept. Stores	
K mart	13
Target	9
Warehouse Clubs	
Price Savers	3
Price Club	2
Catalog Showrooms	
Best Products	3
Total:	**30**

Source: DSN *research*

IMRA '89: Fedco

Breadth, Pricing Key Fedco's Success



Although Fedco does little advertising, the chain is able to draw crowds every day chiefly through word-of-mouth and warehouse club-level prices. Left: Customer service is one of Fedco's more potent weapons against its competitors.

SANTA FE SPRINGS, Calif. — Battling against several national discounters and numerous membership warehouse clubs, Fedco quietly holds its own against its larger competitors in Southern California.

The only major discount store that still maintains a membership policy, Fedco operates nine full-line stores plus three furniture/appliance units.

Housed within the 180,000-square-foot stores are some 100,000 sku's that cover a broad base of product categories. It is this mix, along with sharp everyday low pricing, that gives Fedco a strong position in the market.

Although K mart and Target operate their full-line discount stores in Fedco's home territory, neither of the outsiders has a merchandise mix that can rival the diversity and depth of Fedco.

At first glance, Fedco does not appear to have the merchandising sophistication of a Target or K mart. In Fedco's case, though, looks are deceiving.

Not only does Fedco cover the basic discounter departments, but the chain also carries groceries, a bakery, a restaurant, upscale consumer electronics (via a leased department arrangement), pharmacy and home office equipment. And, within a given typical category such as plumbing, Fedco's selection rivals that of a small hardware store.

POS Scanners Installed Chainwide

Although smaller in terms of store numbers than many of its competitors, Fedco is technologically in step with many of its rivals. Last year, Fedco installed point-of-sale scanners to all stores' general merchandise registers, while the grocery departments had already been using them for some time.

Fedco also goes toe-to-toe with such membership warehouse clubs as Price Club, Costco, PACE and Price Savers. Against these chains, Fedco primarily competes for customer dollars in departments like consumer electronics, housewares, household cleaners, liquor/beverages, pet supplies, domestics and food.

Yet even against the area's generally successful membership warehouse clubs, Fedco carries its advantages.

Unlike the $25 yearly membership fee at places like Price Club and Costco, Fedco offers a lifetime membership for $10. (Until this past year, the fee was only $5).

Aware of this advantage, Fedco recently pointed out the membership fee difference in its monthly Fedco Reporter catalog with the statement: "At Fedco you pay $10 once for a lifetime membership, not $25 a year for the rest of your life."

Membership qualifications are also much less rigorous at Fedco than at the other clubs, so the discounter is able to attract a larger shopper base. While Fedco, too, goes after many of the same individual members, the chain also offers cards to military personnel, full-time adult students and people on social security or disability. Combined, these less restrictive qualifications provide Fedco with some three million members.

And as with most discounters, Fedco carries a broader selection of merchandise than membership warehouse clubs. With little advertising and everyday low prices, Fedco is able to match the clubs' prices, while offering more sku's and a higher level of customer service.

Like a Price Club, Fedco is able to draw heavy crowds on a daily basis. Other than a monthly catalog, Fedco does little advertising, so customer attention comes typically by word of mouth.

The average crowd at Fedco is so large that some of its top stores actually provide additional parking across the street from the store.

However, customer loyalty can mean nothing if the shoppers aren't expressing their affection by spending dollars. But in Fedco's case, customer loyalty definitely translates to strong sales volume.

Having just calculated year-end results for fiscal 1989, Fedco posted some $684 million in sales during the 12-month period. This volume was realized with the same number of stores as in fiscal 1988, when sales were approximately $1 million lower.

At $4.54 million, net earnings were somewhat lower than the past year, however this drop was due to a change in inventory accounting methods and an extraordinary gain in fiscal 1988.

Looking strictly at income before taxes and adding in the loss due to the inventory change, Fedco actually performed better in fiscal 1989.

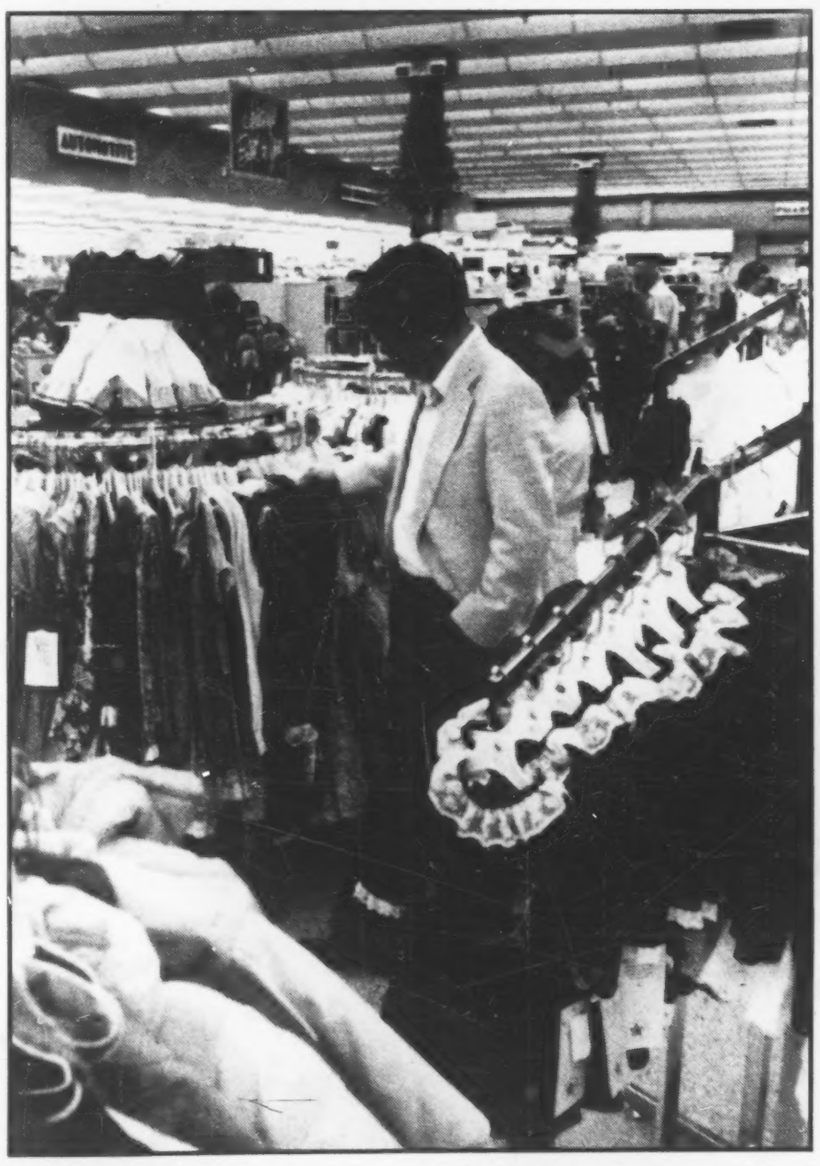
No Immediate Expansion Planned

Yet despite its success, Fedco is content to stay within its market. In fact, because the chain is a non-profit mutual benefit corporation, Fedco is prevented from selling stock to raise capital for expansion. Instead, the chain must rely on its internally generated funds, which keeps future progress on a relatively slow, but steady path.

However, the chain has generated enough funds to update and remodel many of its stores. Last year, the Pasadena location received a $5 million facelift that enlarged the on-site warehouse and expanded selling floor space by 16,000 square feet.

So while Fedco is not ready to become the next K mart, this regional discounter has a brighter future than most and is positioned to give any retailer a run for customer loyalty and dollars in Southern California.

Fedco
Headquarters: Sante Fe Springs, Calif.
Number of stores: 12 (9 full-size stores and three furniture/appliance stores)
Average store size: 180,000 square feet
Sales (fiscal 1989): $684 million
Earnings (fiscal 1989): $4.54 million
Percent change sales: 0.13%
Percent change earnings: (21.0%)
Source: Fedco



Fedco's 180,000-square-foot stores house an unusually broad assortment of goods in each department, including apparel. (DSN photos)

In an effort to attract a larger customer base, Fedco, the only major discount store still maintaining a membership policy, has made the qualifications to join comparatively less restrictive.

IMRA '89: Marketing

Retailers: Will the '90s Be the Decade of the Home?

By Harvey D. Braun

With the 1990s fast approaching, what can retailers look forward to?

Demographically, the baby-boomers will still dominate, but they will be in their 40s. Through the power of their numbers, they will make "maturity" fashionable, as they made "youth" the credo of the '60s. And in their maturity the boomers—and all of us who will be bombarded by advertising directed at them—will be more concerned with the home.

That concern will stem partly from the boomers' sense of economics. They know their homes represent their greatest investment, that one-third of America's wealth is tied up in owner-occupied single-family homes. The boomers will spend what's needed to maintain and enhance the value of those investments.

They will also place strong emphasis on home because they will be raising families. They've heard the ticking of their biological clocks and in the 1990s the products of those innate urges to procreate will be in school. At home those children will need desks, bookcases, encyclopedias, computers and many other things attendant to growing up and going to school.

Percent of Shoppers Planning Major Purchases with No Store Preference or Loyalty

Men's Clothing	37.2%
Women's Clothing	50.1%
Children's Clothing	72.6%
TV, VCR	45.1%
Stereo Equipment	54.0%

Source: Impact Resources

What would this focus homeward mean for retailers? In a recent survey, Impact Resources of Columbus, Ohio, exclusively affiliated with Touche Ross, found that in a sample of more than 200,000 shoppers nationwide, almost 35,000 of them (17.5 percent) plan to make a major purchase during the next year. What are these particular shoppers like, these who plan major purchases in the next year? They seem much like our boomers moving into maturity.

For example, we find these "purchasers" to be 36.7 years old, and almost 54 percent are married. More than one-quarter are college graduates and another 35 percent have had some college. They have an average household income of $35,200 with a tidy 3.0 persons in each household.

Almost 53 percent of these intended purchasers own their own home; 62 percent of those homes are houses and 6 percent are condos. More than three-quarters of them make repairs around the house themselves, and 38 percent work on their own cars. Seventy-eight percent are white.

Sixty percent have cable TV and more than 70 percent have a VCR; 29 percent have a home computer; 77 percent have a microwave oven; and almost 60 percent use automated teller machines. Is the image of the baby boomer coming into focus?

Favorite leisure time activities for these purchasers are:

- Reading: 74.2 percent;
- Shopping: 73.2 percent;
- Music: 72.7 percent.

Many more of them (53.6 percent) read a metro daily paper than read *The Wall Street Journal* (4.6 percent).

The criteria that guide the shopping of these purchasers vary depending on the item. Some items and primary reasons for choosing a store are:

- Men's clothing, women's clothing, shoes: selection;
- Children's clothing: price;
- Toys and games: price and selection;
- Health/beauty aids: price;
- TVs, VCRs, stereo equipment, major appliances, home improvement: price;
- Groceries: location.

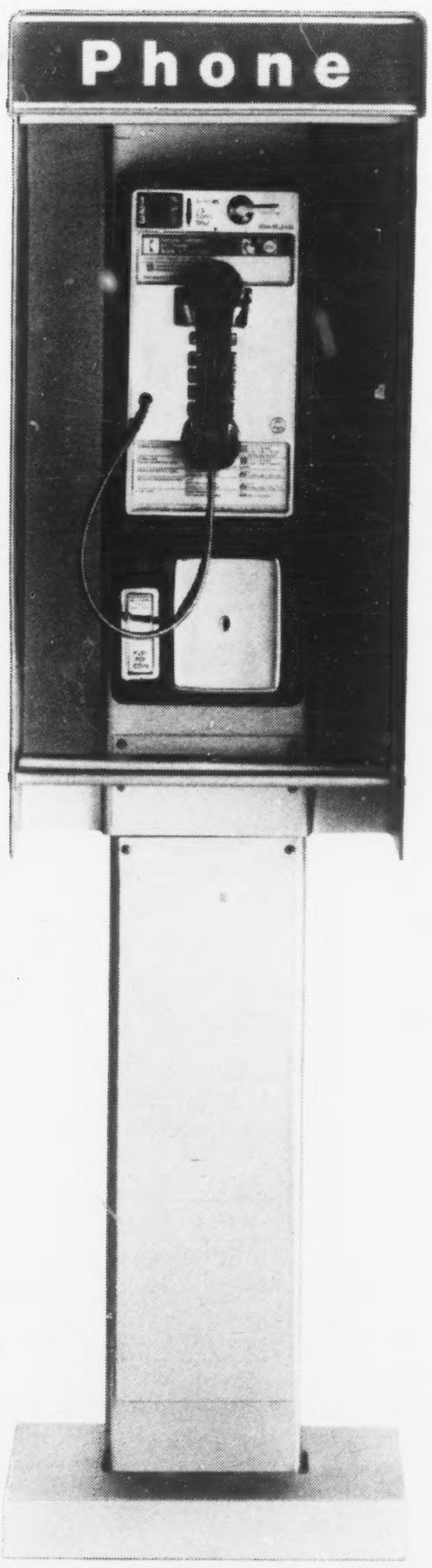
And what are these purchasers planning to buy? Seventy-nine percent plan to buy furniture in the next year, 58 percent for the living/family room, 37.6 percent for the bedroom and 19.4 percent for the dining room. Forty percent are planning to buy a car or truck; 40 percent a major home appliance; 22 percent a home or land; almost 14 percent a computer; 29 percent stereo equipment; and 43 percent a TV or VCR.

Even among the total sample, the interest in products for the home is strong. Almost one-quarter of all shoppers surveyed plan to buy furniture in the upcoming year; 16 percent a major home appliance; 25 percent a car or truck; 10 percent a home or land; 15 percent a TV or VCR; 12 percent stereo equipment; and over one-third plan to spend money on vacation and travel.

Knowing where consumers are heading is, of course, one of the trickiest problems the retailer must deal with. The thought they are heading home is worthy of consideration.

Harvey D. Braun is national partner for retailing and chairman of the Retail Services Group at Touche Ross, the Big Eight accounting and consulting firm. Now based in the firm's national office in New York, Braun has consulted to retailers on a range of issues for over 25 years.

They look the same, but one will give you less static.



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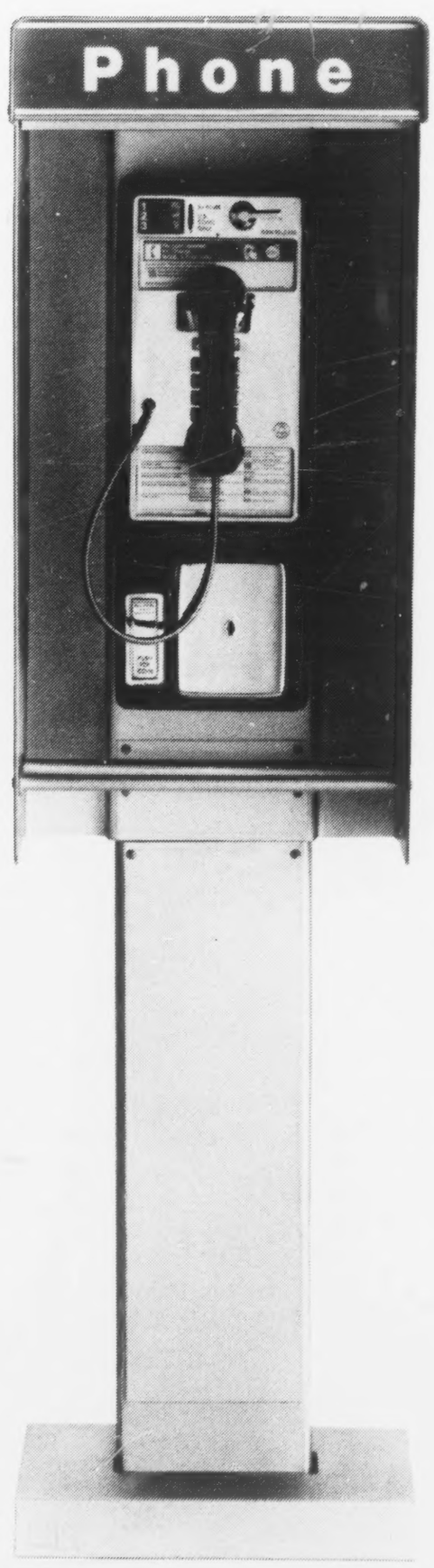

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APPAREL

WOMEN'S/MEN'S/CHILDREN'S/HOSIERY/JEWELRY & ACCESSORIES/UNDERWEAR/INTIMATE APPAREL

It's Chains for Jeans

Study Finds Jeans Are the Men's Wear Item Most Likely to Be Bought at Discount Department Stores

Nationwide DSN Report

To a majority of consumers, both men and women, discount department stores are not considered a major source for men's wear, especially "dressier" clothing.

According to a special consumer men's wear study conducted for *Discount Store News* by Leo J. Shapiro & Associates, Chicago, discount department stores trail upscale department stores, specialty clothing stores, and national mass merchandise chains like Sears, JCPenney and Montgomery Ward, as the stores in which shoppers would most likely purchase each of six popular items of men's apparel.

However, among the six products mentioned in the survey, the propensity to purchase at a discount department store is highest for jeans (11 percent), tennis shirts (8 percent) and cotton slacks (8 percent).

They are less likely to purchase dress slacks at a discount store (4 percent vs. 44 percent at an upscale department store), and dress shirts (6 percent vs. 41 percent at an upscale department store).

The study also found that the majority of American males already own a dress shirt (87 percent), dress slacks (84 percent) and jeans (84 percent). Just over half (55 percent) own shorts. Fewer own cotton slacks (42 percent) and tennis shirts (41 percent).

Of the types of clothing studied, men are most likely to shop for jeans (64 percent) and dress shirts (62 percent) in the coming 12 months, according to the survey. Their color preferences will be white for tops (tennis shirts, dress shirts) and blue for bottoms (shorts, dress slacks, jeans), except for cotton slacks (men prefer tan).

A comparison of the current sampling with a similar survey conducted in 1986 reveals only minor changes in consumer attitudes toward men's wear in the past three years.

For example, tennis shirts are owned by 41 percent of U.S. men now, compared with 43 percent in 1986. The intent to purchase a tennis shirt is also virtually unchanged: 23 percent expect to buy one in 1989 compared with 21 percent in 1986.

Slightly more men own a pair of shorts in 1989 (55 percent) than in 1986 (52 percent). Nike, the preferred brand of 11 percent of probable purchasers, overtook Adidas (9 percent) as the preferred brand since 1986.

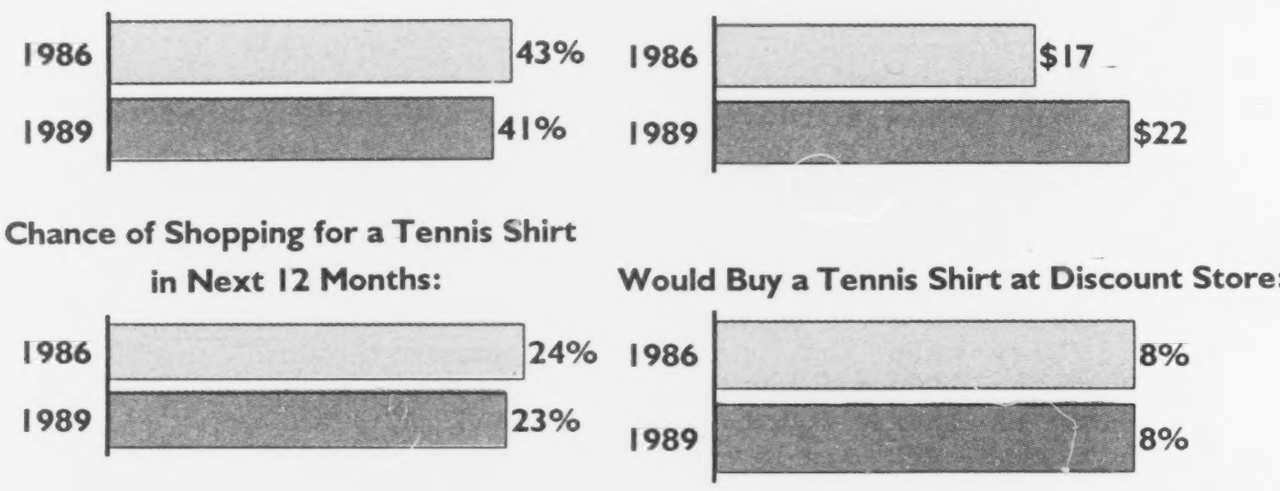
(Continued on page 195)

1989 Men's Wear Study

	Tennis Shirt	Men's Shorts	Dress Shirt	Dress Slacks	Jeans	Cotton Slacks
Currently Own	41%	55%	87%	84%	84%	42%
Chance of Shopping for in Next 12 Months	23	36	62	57	64	30
Among Those Who Would Buy:						
Would Expect to Spend:	$22	$16	$24	$35	$25	$28
Would Buy at:						
Discount Dept. Store	8%	6%	6%	4%	11%	8%
National Merchandiser	18	21	21	18	20	14
Full-Price Dept. Store	37	37	41	44	26	46
Specialty Store	31	27	20	25	30	18
Sporting Goods Store	12	19	1	1	1	0
Other	6	1	6	3	3	6

Source: Leo J. Shapiro & Assoc/DSN

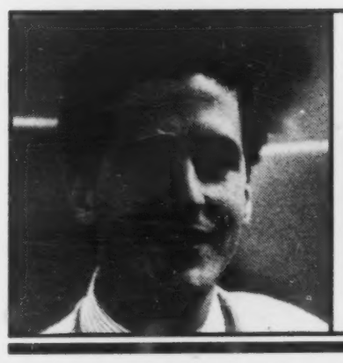
Tennis Shirts



Source: DSN; Leo J. Shapiro & Assoc.

THE CUTTING EDGE

The Benefits of Being Off the Beaten Path



KEN CHANKO
Senior Editor

When it comes to buying power, the conventional wisdom is that the bigger you are the more power you have.

That's not a difficult concept to comprehend. The more stores you operate, the bigger your orders, the more your supplier is likely to cater to you in 'extra-special' ways.

So what are smaller regional discounters like Fishers Big Wheel and Prange Way—or even the bigger regionals like Jamesway or ShopKo—to do? How can they compete with the giant K marts, Wal-Marts and Targets of the world?

While on the surface, the situation at the regional chains might seem troubling, let's take a closer look.

Many regional chains, especially the smaller ones, are, by their very nature, in small towns, the nearest mall being many miles away. At least as it relates to apparel, being in the boonies is hardly the worst thing in the world.

The key here is that many image-conscious branded manufacturers—like Bugle Boy, Pacific Coast Highway, Cotler, etc.—cater to department and specialty stores. These vendors certainly don't want to go out of their way to advertise their association with discounters, yet they certainly don't mind the volume business they reap by selling those same discounters.

So what several "upscale" vendors are doing is going with the smaller, more out-of-the-way chains. By selling directly to regional discounters on a select basis, these vendors can do some nice volume business, yet not antagonize their more upscale customers. After all, the nearest Macy's or Jones Store is a couple of towns away.

Even though a chain like Fishers Big Wheel, for example, would have to be discreet about alerting shoppers to its Bugle Boy items in ads, it would soon get around among the locals in, say, Somerset, Penn., that the Big Wheel—rather than the K mart—is the discounter carrying the Bugle Boy brand.

Also, many manufacturers with "something new" to offer—whether it's a new licensed product or just a new look—won't necessarily go calling on K mart or Wal-Mart first thing. Most manufacturers like to "test" the product in a limited way, and in an environment they have a little more control over. Dealing with the giant chains on a new product that might require special handling to get off the ground just doesn't make sense.

So the sharper regional chains are doing anything but wringing their hands. They're remaining flexible and open to new ideas. Even though they might be off the beaten path, they're finding many of the better manufacturers beating a path to their door.

Study: Consumers Look Elsewhere for Men's Wear

(Continued from page 192)

A smaller percentage of men said they would buy their shorts at a discount department store in 1989 (6 percent) than in 1986 (8 percent).

In contrast to the problem that adversely affected women's wear business last year, most consumers are happy with the styles available in men's clothing, according to the report.

Of note, women, who purchase a significant percentage of men's apparel, are particularly pleased with the current men's styles. When asked how they feel about the styles in men's wear, 41 percent of women surveyed and 34 percent of men said the fashions are better. Their reasons: different styles (cited by 21 percent) and brighter/variety of colors (18 percent).

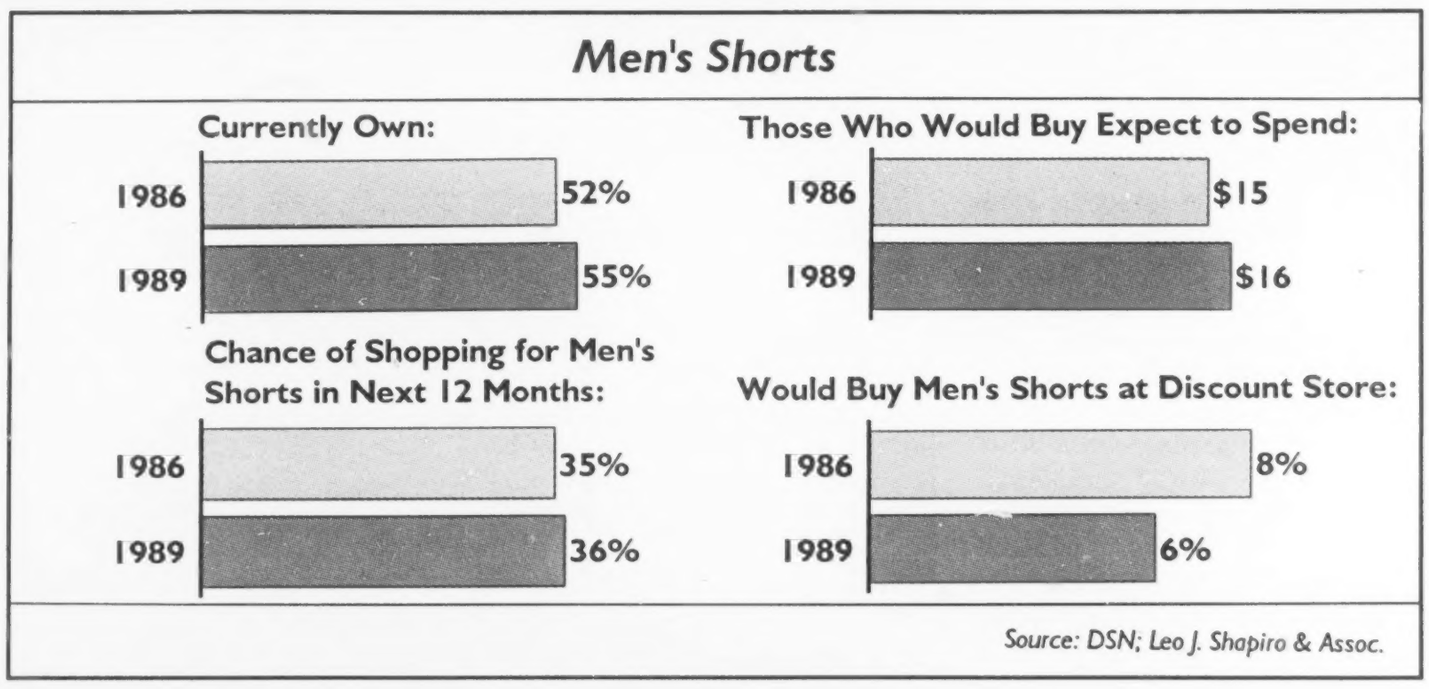
However, the baggy look appears to have passed its peak. Among consumers who feel styles are worse this year (12 percent of the total), one-third (33 percent) complained that the clothes are too baggy.

As previously reported in *Discount Store News* (see *DSN*, March 6, page 33), casual cotton slacks are rapidly gaining favor among consumers. Forty-two percent of men currently own cotton slacks (described in the survey as "slacks for men that are more for casual wear but are a bit dressier than jeans, often coming in all cotton and having pleats in front"). Nearly one-third of the survey population said they might be buying a pair in the coming 12 months and 8 percent said they would expect to buy them at a discount department store.

Given that these "Dockers-style" slacks bridge the gap between jeans (the strongest men's wear category for discount stores) and dress slacks (the weakest), discount department stores, especially upscale discounters, may be able to capitalize on this growing trend.

Men and women surveyed said they expect to spend the most on dress slacks ($35 for a pair) and the least on shorts ($16). They would expect to pay $28 for cotton slacks, $25 for jeans, $24 for a dress shirt and $22 for a tennis shirt.

This year's men's wear study was conducted during the first quarter with a national sample of 450 U.S. households, alternating between "the man and the woman of the house." Some questions were asked only of men.



Source: DSN; Leo J. Shapiro & Assoc.

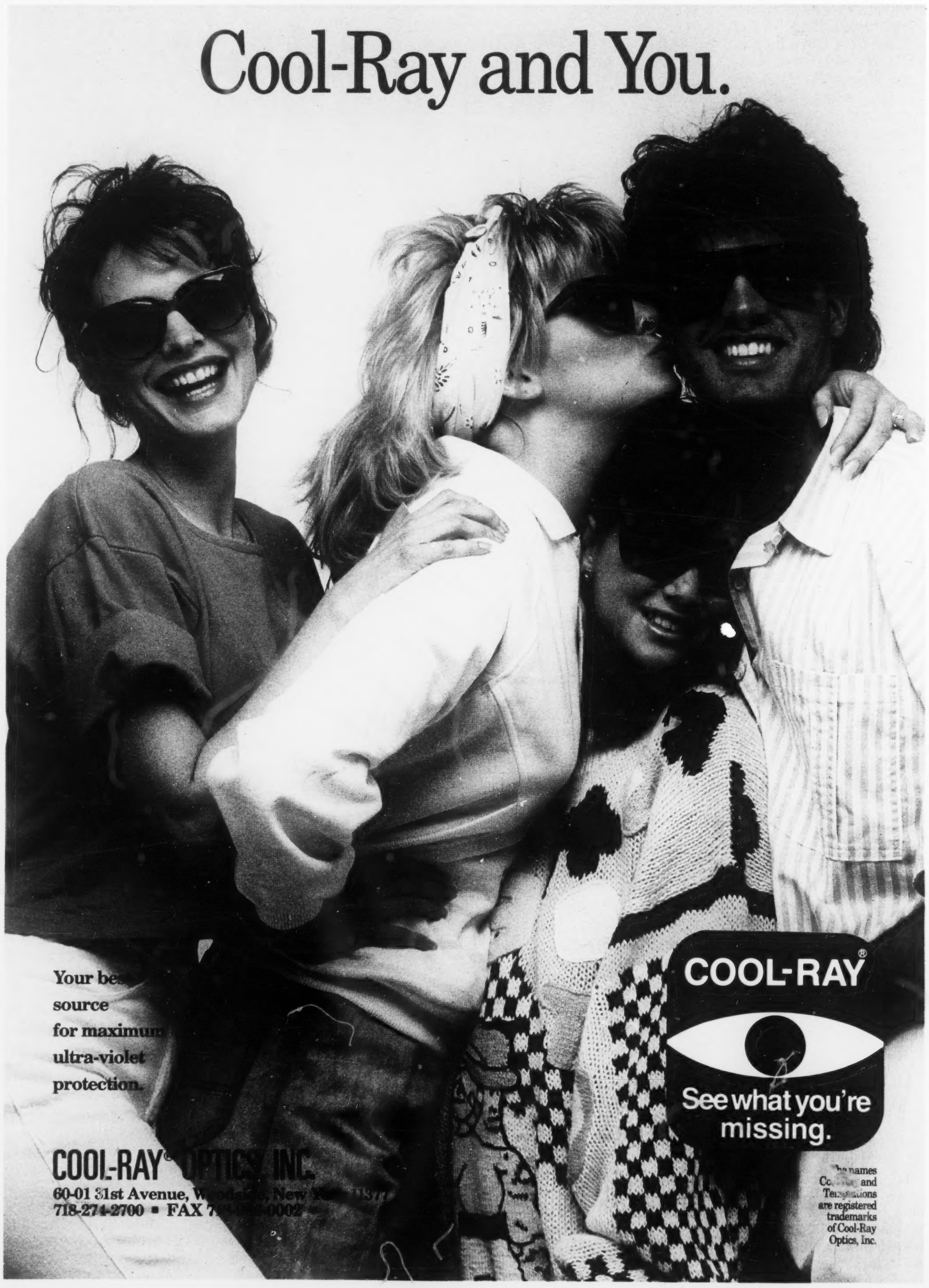
S&K Reports Record Sales

RICHMOND, Va. — S&K Famous Brands reported record sales of $52.4 million for its fiscal year ended Jan. 28, a 22 percent increase over its previous year's volume.

Net operating earnings also hit record levels, advancing 23 percent to nearly $2.2 million. Net earnings only rose by 1 cent per share, from $1.04 to $1.05, but the prior year included a 19-cent per share boost due to an accounting change.

During 1988, the men's wear chain opened 15 stores in seven new markets, expanding its geographic area to 16 states with 74 stores. Ohio and Louisiana are the most recent states added in S&K's expansion into the Midwest and Southeast. During the first quarter of this year, the company opened two new stores, one in Kenosha, Wis., and a second in Knoxville, Tenn.

S&K plans to double its store count by 1992.



Kmart Eyes Payback on New Retail Technology

(Continued from page 1)
stores to run the different programs. Overall, the discounter will have spent about $1 billion by then on technology, with undisclosed amounts apportioned out for capital expenditures like computers and other equipment, development expenses for software (which are charged as they occur) and operating costs.

The major payback from this investment is a reduction of 1.5 percent in store expenses as a percentage of sales. The goal, to be evident by 1992, is based on the approximate 23 percent expense-to-sales ratio of the past few years.

Technology plays a key role in K mart's plan to centralize its merchandising and replenishing program. When technology and centralized merchandising are combined, Antonini said, K mart should achieve a 0.25 percent improvement in turns each year during the next four years.

Scanning, the most basic technology, is already in place in over 1,200 K marts, with 1,700 stores expected to be equipped for scanning by the end of this year. Chainwide scanning will be in place by the end of 1990.

Antonini noted that scanning enabled K mart to centrally merchandise small appliances for the first time in 1988. While same stores sales last year were up 4 percent, small appliance volume in comparable stores increased 11 percent.

"This substantial gain was directly attributable to improved merchandising and inventory balancing techniques which are only economically available through the use of UPC scanning technology. This program was also supported by EDI with many of the department's vendors," Antonini said.

By 1990, K mart expects that scanning and EDI will enable it to centrally merchandised 75 percent of its goods.

Carlson noted that K mart has EDI programs with over 1,000 vendors, the vast marjority of which are hard lines suppliers. Most companies use the chain's own 11-year-old proprietary system, with less than 100 employing the VICS ANSI X.12 or UCS formats.

"We will continue to use our proprietary format as long as our vendors want us to," he said. "The vendors made an investment and we feel that we shouldn't arbitrarily obsolete their investment."

But all new vendors will have to use the VICS X.12 standard, he said.

The sales information captured by scanning or keying in sku's in non-scanning stores are sent to the data center via K mart's satellite network. About 1,450 stores will be on the network by the end of the year and the system will be used chainwide by the spring '90, Carlson said.

The network provided two-way data and video transmissions, including real-time credit card authorization. Sales information is batch captured at night.

Sales and training information such as the display of new items is broadcast to the stores, which tape the presentations to develop a library of programs that employees can view as needed.

The KIN system controls a number of programs, each of which is maintained on the store's own computer. These separate programs are connected to and communicate with each other through a LAN (Local Area Network) system in each store.

Carlson said this arrangement provides a safety net so that if any computer goes down, only one specific program will be affected and the store and the other systems can still function normally.

K mart has individual store computers to operate its layaway, pharmacy, backroom receiving and marking, credit authorization and integrated shelf marking systems.

LAN enables any computer to communicate with another and draw needed information from any other terminal. The layaway program, for example, can access the credit authorization system to verify a customer's credit rating and the shelf marking program to check on the price of an item.

While there are obvious merchandising and operations benefits from all these technologies, Carlson said there is a human impact as well.

"They provide direct information to our employees. The satellite network, for example, helps to motivate them because they feel like and are much more a part of the company than they have ever been."

Ames' Job Fair Softens Fallout from Merger with Zayre

(Continued from page 1)
jobs at its Rocky Hill, Conn., headquarters to 500 to 600. Of those, only 150 have accepted the offer, said Ralph Hamel, former director of training for Zayre and former head of the outplacement operation for the Zayre division of Ames.

In addition to firings at headquarters, about 7,400 store employees lost their jobs last December when Ames closed 74 stores five weeks after acquiring Zayre Oct. 28.

Hamel was one of those who left Ames (at the end of April), rather than leave the Boston area for Rocky Hill, south of Hartford. "I have a daughter in college here," Hamel said. "I'm a two-career family, and I've lived here for 16 years."

Many executives are declining Ames job offers because they have job opportunities in the Boston area and prefer Boston over Rocky Hill, Hamel said.

"New England is an important labor market for Ames," Hamel said in a interview before his departure. "We want 1,500 ambassadors of good will, not 1,500 bitter, ex-employees. Outplacement is good business."

Ames is phasing out Zayre headquarters over the next eight months, and the last 70 employees in finance and management information services are scheduled to depart Dec. 31, Hamel said. The speed with which Ames can consolidate operations at Rocky Hill will determine how fast the five Zayre headquarters buildings in Framingham and Natick shut their doors for good, he said.

About 220 more employees got pink slips effective the last week of April and the first week of May.

Around 50 Zayre employees opted to retire under the pension plan of Zayre Corp., Hamel said. Ames offers no company-funded retirement plan, but under the acquisition agreement, Zayre Corp. must maintain a trust to fund retirement pay for ex-Zayre employees, even if they transfer to the Ames payroll, he said.

Thanks to the booming labor market in the Boston region, about half of the Zayre staff will get jobs on their own, Hamel said. All employees are eligible for severance, Hamel said, but Ames declined to disclose how much of a reserve it established for severance pay.

To ease their departure, Hamel was operating what he called the Zayre Career Continuation Center. In that 12,000-square-foot building, Zayre is offering the employees seminars on:

- Interviewing skills, including videotaped sessions involving expected questions;
- Financial planning, including how to invest lump-sum severance payments and how to live on unemployment benefits, if it came to that;
- How to find a job;
- How to handle the stress and loss of self-esteem that comes from getting fired.

Some 350 employees so far have taken the seminars, Hamel said, and about half of those already have found jobs.

In addition, Ames is offering the employees free use of phones to make long distance job search calls and is printing resumes right at the placement center, Hamel said. Ames even pays the postage to mail resumes.

The Zayre center is linked by 10 computer terminals to the state unemployment office in Boston, and three state employees are working at the center. Employees can use the terminals to search through the 40,000 jobs listed in the computerized job bank of the unemployment office, he said.

The Massachusetts Department of Employment and Training co-sponsored the "Zayre Career Continuation Job Fair" held April 18 at the Sheraton Tara hotel in Framingham. Theme of the fair was, "Move Up When Zayre Moves Out."

Around 700 Zayre associates attended the fair, held from 10 a.m. to 8 p.m. About 125 representatives of 50 retailers were on hand to take resumes, conduct preliminary interviews and schedule further interviews for those that passed the initial screening.

Putting workers in touch with employers this way can lop four to six weeks off the job search process, Hamel said.

Discounters participating in the job fair included Stuarts, Bradlees, Child World, Filene's Basement and Hills, all based in the Boston area; Venture, based near St Louis; and Consolidated Stores, Columbus, Ohio.

Also attending were recruiters from T.J. Maxx, Framingham, Mass., the off-price apparel chain of Zayre Corp. that became its core business when it divested the discount store chain.

Hills, for example, was looking for computer programmers and operators, merchandise planners and distributors, and consumer affairs associates. And, Bradlees was seeking to hire secretaries, assistant buyers, distributors, programmer analysts and a systems analyst.

Available Zayre employees range from secretarial through data processing up to executives at the vice presidential level, Hamel said.

Target Unwraps New Prototype

(Continued from page 5)
South Carolina, Tennessee and Kentucky, Target currently operates 379 stores in 31 states. The discounter's new "Everyday Low Pricing" strategy, previously under test in two markets, was implemented in all of its converted stores in the Southeast. The Eagan prototype does not have the EDLP policy.

To promote the 30 Southeast stores, Target developed a special supplement—Target Across the USA—in *USA Today*. The 16-page, four-color section, which ran in the newspaper's April 26 issue, contained some 10 articles about Target as well as advertisements from 12 suppliers.

The advertisers included Castrol, Country Estates—a new private label bed and bath line developed by C.S. Brooks, Louisville Bedding and Stevens—Coca-Cola, Gitano, American Greetings, Gloria Vanderbilt, Milton Bradley, Mead, Stuart Hall, Brittania, and EPI Products.

Hite projects that Target will have 400 units by year-end. Sales are expected to top the $7 billion mark in 1989.

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Vol. 28, No. 9 May 8, 1989

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Target president and ceo Robert Ulrich to vendors: 'You're going to hear the word 'together' a lot.' (DSN photo)

Upbeat Target Honors Vendors as Partners

By Tony Lisanti

MINNEAPOLIS, Minn. — Over 1,500 vendors crowded the Radisson Hotel here recently for a well-choreographed program to celebrate their partnership with Target Stores, which also used the event to promote itself as the nation's "premier upscale discounter."

"You are going to hear the word 'together' a lot," chairman and ceo Bob Ulrich said. "At times it might be called something else—cooperation or friendship. However, it's

(Continued on page 38)

See Editorial, Target Photos—pages 6, 8

Caldor, Venture Profit From Closer Relations

Chains Benefit from Sharing New Ideas, Experience

By Don Longo

NEW YORK — Growing synergy between Caldor and Venture is adding vitality to the merchandise mix at each of the large regional discount chains operated by the May Department Stores Company.

Yet, company officials, at May's first appearance before the New York financial community in two years, insisted that a merger of the headquarter operations of the two discounters is not in the offing.

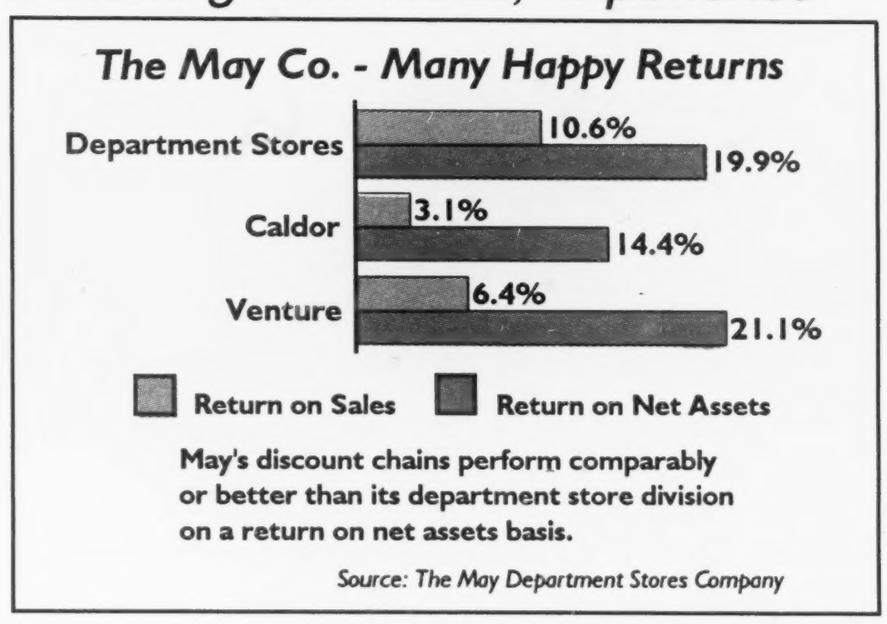
"We have no plans for combining any of our department store or discount store divisions," said Thomas Hays, president, who added that Caldor and Venture will equally split about 30 percent of May's planned five-year, $3.5 billion capital expenditure program. The remainder will be used to expand the strong 14-chain department store division, including Lord & Taylor, Foley's, May Company, Hecht's, and others.

Though not in attendence, Caldor's top two executives—chairman Don Clarke and president Marc Balmuth—were given credit for making substantial progress toward improving results at the Northeast discounter.

"When we bought Caldor [in October 1986 as part of May's takeover of Associated Dry Goods], we had never seen a sorrier retail organization," said Hays, a former chairman of Venture.

In the fiscal year just ended, Caldor's sales rose just 4.8 percent to $1.57 billion. Operating earnings were down 10.7 percent to $50 million, but were affected by a LIFO charge of $9 million in 1988 compared to a $6 million charge in 1987. Hays claimed

(Continued on page 35)



Auchan to Clothe Chicago Hypermarket by Year-End

By Arthur Markowitz

BRIDGEVIEW, Ill. — Auchan will transform its new food and hard goods combination store here into a typical hypermarket when it adds a 30,000-square-foot apparel department by the end of this year.

That Auchan would open a 130,000-square-foot store in this Chicago suburb this month without an apparel department (see *DSN*, May 8, page 7) demonstrates the $7.5 billion French retailer's willingness to experiment, to tailor stores to specific markets while making the long-term investment to learn more about American retailing.

Auchan debuted in the United States last fall with a 230,000-square-foot full-line hypermarket in Houston (see *DSN*, Oct. 24, 1988, page 1) that included apparel and such other categories as tires and major appliances which aren't being added to the Bridgeview

(Continued on page 38)

Inside Chicago's first hypermarket are Christian Clerc-Batut, president of Auchan parent, Midfield/Foodfield, and Jacques Marcelin, president and ceo, Auchan Group. (DSN photo)

K mart, CBS to Launch Promo Blitz

Mammoth Sweepstakes Tied to Network's Premiere Week

NEW YORK — K mart has gone prime time!

The nation's largest discounter has joined with CBS for a national sweepstakes promotion tied to the network's new program schedule in September.

Both K mart and CBS hope the promotion, which will reach 72 million households, will attract younger participants, ideally the under 35 market. CBS, the third ranked network, believes the promotion will generate tremendous awareness for its new programs and increase its ratings. K mart hopes to boost traffic and offset the huge promotional efforts of Sears' switch to an everyday low price strategy.

The game promotion will be launched the first night of CBS' premiere week in mid-September and run for three weeks during all day parts. It will be promoted on CBS Television, CBS radio, national magazines including *People* and *Time*, daily newspapers and K mart's circular, which will feature a four-page insert with the game details and the new CBS program lineup.

Acccording to Jerry Habeck, K mart's director of advertising, all the discounter's 2,200 stores will participate. In-store signage will include full color center aisle banners pro-

(Continued on page 35)

Apparel:

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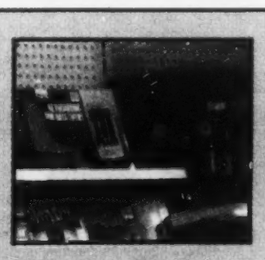
...dising:



Home Products:

Prange Way Targets Impulse RTA

page 27

Hard Lines:

Stationery Biz Goes to the Office

page 33

MS JEANNE LONG
CONGRESSIONAL INFOR SVC 120
4520 EAST-WEST HIGHWAY
BETHESDA MD 20814

MARKETWATCH

Zayre Spins Off Wholesale Clubs as Waban

FRAMINGHAM, Mass. — Zayre Corp. has begun its restructuring by declaring a special $3.50 cash dividend and spinning off Waban Inc.—the new firm composed of 22 BJ's Wholesale Clubs and 49 HomeClub units—to its shareholders. Zayre's next step is to complete the acquisition of the 17 percent minority interest in TJX Cos. that it doesn't own, thereby becoming an apparel specialty retailer with 313 T.J. Maxx stores, 511 Hit or Miss units and the Chadwick's of Boston catalog. Zayre plans to change its name to TJX Cos. at a June 20 stockholders meeting.

Sears Catalog Division to Move First

CHICAGO — Sears catalog division will be the first operation to relocate from Sears Tower when about 650 catalog merchandising and advertising employees move this fall to the former Allstate Insurance Co. headquarters in suburban Skokie, Ill. Other catalog operations will move later this year or early next year to the three-story structure Sears has owned since 1951. The catalog group's move isn't related to the relocation of the Sears Merchandising Group. Studies are underway to determine the best site for that operation, executives said.

Burlington Coat Makes Bid for Dry Goods

BURLINGTON, N.J. — A Burlington Coat Factory plan to buy the five stores and assets of bankrupt apparel specialty retailer The Dry Goods for $10.8 million is due to be presented at presstime to the federal bankruptcy court in Camden, N.J., handling the case. The court will decide among all bids for The Dry Goods, including the retailer's own reorganization plan. The Dry Goods filed a Chapter 11 petition in November 1988 when it had eight stores, stating it wanted to reorganize and maintain its business.

Child World to Install Satellite Network

AVON, Mass. — Child World plans to install a $2.1 million satellite communication network by this fall. The Tridom SKYNET Clearlink VSAT (very small aperture terminal) network will connect the 175 Child World and Children's Palace stores in the Northeast and Midwest due to be operating by September with a shared hub station in New York City. That facility will be connected to the retailer's host site via Tridom parent AT&T's DATAPHONE digital telephone service.

Price Opts for One-Time Cash Dividend

SAN DIEGO — The Price Co. has called off its planned preferred stock dividend in favor of a one-time $1.50 per share cash dividend. The payout will total about $75 million or approximately 14 percent of the firm's net worth. The special cash distribution "is a simpler, more direct approach" to paying a dividend, said Giles Bateman, executive vice president and chief financial officer.

Business Newspaper Cites Ward's Brennan

CHICAGO — Montgomery Ward chairman Bernard F. Brennan has been named *Crain's Chicago Business* 1988 Executive of the Year. As the second retail executive to be honored since the program's inception in 1983, the award recognized Brennan's leadership of the $3.8 billion management buyout of the company last year and its subsequent revamping into a $4.9 billion specialty retailer that reported $139 million in profits.

Pflug Named Consumers Distributing Head

EDISON, N.J. — Semi-Tech Microelectronics has named John Pflug president of its Consumers Distributing (U.S.) division, succeeding Alan Kane, who resigned. Pflug, previously executive vice president, has been with the 89-store Northeast cataloger for 10 years.

GEnie Connects 150,000 Subscribers

ROCKVILLE, Md. — The GEnie interactive computer information and shopping service has reached the 150,000 subscriber level, making the General Electric Co. operation the nation's second-largest online service. GEnie has also cut its prime time access charge almost in half to $18 an hour and reduced its non-prime time rates, depending on baud speed of the modem. The new rates are designed to make GEnie more competitive with CompuServe, the largest online service.

Peter Luria Becomes Prez at L. Luria

MIAMI LAKES, Fla. — L. Luria & Son has promoted executive vice president Peter Luria to president and chief operating office. He succeeds his father Leonard Luria, who founded the 47-unit Florida cataloger and continues as chairman and chief executive officer.

ALCO Files for Chapter 11; To Close 52 Units in 10 States

By Mary Ellen Kelly

ABILENE, Kan. — Duckwall-ALCO filed for Chapter 11 protection this month and will close 52 of its 151 units as part of its restructuring. Competition, mostly from Wal-Mart, resulted in a $10 million loss at the 52 stores last year.

The filing occurs nearly a year after the chain realigned its management team when chairman Robert Soelter retired. The bankruptcy also comes about four years after it completed a management-led leveraged buyout.

Glen Shank, president of the company since last June, attributed the discounter's current financial problems to various competitive and market conditions.

In a published statement, Shank cited, "the emergence of heavily financed competitors . . . the setbacks suffered in the economies of rural areas and small towns, and the heavy debt structure of the company," as factors making the filing necessary. "We determined this was the best approach to ensure the health of the entire Duckwall-ALCO organization."

The company has secured a $76 million revolving line of credit through Jan. 1, 1990, from General Electric Capital Corp., according to ALCO's attorney, John Donner of Stinson, Mag & Fizzell, Overland Park, Kan. The filing listed ALCO's total assets at $152.2 million and total liabilities at $149.5 million.

Donner said that ALCO has been losing money for the past few years, "principally due to losses at these 52 stores. The stores to be closed lost $10 million last year alone . . . This has been generally attributed to competition from Wal-Mart," he added.

Another four stores might be closed, depending on whether lease agreements can be negotiated for a shorter period of time, Donner said.

The store closings will be scattered throughout 10 states: Arkansas, Colorado, Illinois, Iowa, Kansas, Mississippi, Nebraska, New Mexico, Texas and Wyoming. No stores will be closed in South Dakota, nor its sole Minnesota location.

Among the closings will be all six of its Wichita stores, both of its Topeka units, and three of its four Colorado Springs locations.

The restructuring also includes plans to enlarge the staff, both in the ongoing stores and the general office.

Merchandising changes will also be made to improve the discounter's position. Details of these changes were not available at presstime.

The closings involve many of the stores acquired from three regional chains, David's in Wichita, the Hornsby chain in Illinois, and the Sterling/Magic Mart chain in Mississippi and Arkansas, according to published statements from ALCO.

K mart's Antonini Honored at Gala To Benefit Retailing School in Israel

NEW YORK — More than 1,700 retail industry executives, business associates and supporters of Hebrew University were on hand to this month to honor Joseph E. Antonini, chairman, president and chief executive officer of K mart Corp. Antonini accepted the American Friends of Hebrew University's National Scopus Award at a formal dinner at the New York Hilton on May 2.

Chaired by CBS Inc. president and ceo Laurence A. Tisch, the dinner helped raise funds for the establishment of the K mart International Center for Retailing and Marketing at the Hebrew University of Jerusalem. Dr. Henry A. Kissinger was the guest speaker.

Antonini was honored for "outstanding business and personal accomplishments as well as his many years of involvement in higher education." The Scopus Award, named for Mount Scopus, where Hebrew University's first cornerstones were laid in 1918, is the highest honor conferred by the American Friends of Hebrew University.

The K mart Center for Retailing will:

- Conduct applied and basic research and develop case studies, simulations and business games;
- Experiment with new approaches to the teaching of retailing and marketing for both undergraduates and M.B.A. students, as well as business and retail managers;
- Provide an international meeting ground for retailing and marketing experts from both academia and business;
- Serve as a resource center to learn about and test innovative retailing and marketing ideas from around the world.

"We envision enormous opportunity to work with the International Center for Retailing and Marketing to produce professionals for our industry," said Antonini. More than ever, we must, as individuals and as companies, give a higher priority to elevating the educational process."

Antonini concluded, "It is our hope that we will be able to generate the experts necessary to run our businesses in the 21st century and it is our hope that by the cooperation of faculty, students and retailers themselves, we inspire the cooperative spirit necessary to be generalists and necessary to really make our businesses a success. It is the spirit that will carry us to greatness in our commerce, in our communities and in our country."

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After LBO: Bradlees on Track with New Store, Ads

By Mary Ellen Kelly

MERIDEN, Conn. — Bradlees appears alive and well: opening its first new unit since its leveraged buyout a year ago and reporting a whopping 49 percent increase in annual operating profits.

The new store here, Bradlees' only planned opening for 1989, will serve as a blueprint for nine stores to be remodeled this year.

The chain, which just last year pared operations to just 131 stores by selling or closing 35 units in its southern tier, has also launched a new broadcast advertising campaign.

Bradlees longtime broadcast advertising spokeswoman—"Mrs. B." has been shelved. A new series of commercials are now being aired with actors that personify different facets of the Bradlees shopper.

The new TV commercials are the result of a nine-month research project to determine the traits of typical Bradlees shoppers and find out their reasons for shopping at the chain.

Cutbacks in advertising last year contributed to the nearly 50 percent gain in 1988 operating profits, noted spokeswoman Eilene Goreman. Profits reached $84.9 million compared with $57 million in 1987 and 56.6 million in 1986.

Goreman said that last year the chain, "reduced the number of pages in our brochure over previous years," but she would not say how many or what percentage of pages were cut, nor to what extent the cut aided profits.

The Meriden, Conn., Bradlees store opening debuted the chain's first layette department (above) and enclosed consumer electronics area. (DSN photos)

Profits were also boosted by a 2 percent sales gain—and a 6 percent gain in comparable store sales, she said. Sales were $2.107 billion last year up from $2.064 billion in '87.

Bradlees said that increased sales in high margin categories added to the earnings gain. Sales in infants' and children's were strong and profitable, prompting Bradlees to create a new layette department in the Meriden store, that will be added in future and remodeled stores, noted Norm Chalphin, vp of Bradlees stores.

"The children's business is leading in sales of both hard and soft goods," said Chalphin, "and we plan to capitalize on this sales and gross margin opportunity." The gross margin on children's merchandise is among the highest for the store.

The layette department has juvenile furniture, crib sheets, teething toys, bottles, some infant clothing and other products for a newborn.

Women's ready-to-wear and intimate apparel lost space to create the 1,200-square-foot area.

By taking merchandise out of children's wear and putting it into layette, the chain is able to add more apparel to boys' and girls' clothing.

Bradlees has also instituted a new gift-with-purchase test chainwide, said Fred Gelfand, vice president of marketing. Each time a consumer buys items valued at $100 or more from the list of layette goods, they will receive a gift basket filled with items needed by newborns. He estimated the basket has a $25 retail value.

The Meriden store is the first Bradlees to establish a single entrance and cashier for the CE department. New and remodeled stores will gradually adopt the new CE configuration.

In addition to enclosing the CE department, Chalphin said the chain also tried to "give it a more open look," by bringing the glass display cases out further to the aisle. New red and black national brand name signs line the back wall of the department to draw people to the area.

While the CE department does not make use of sensors or detecting devices, the single narrow entrance and exit is expected to reduce shrink.

Bradlees will also move ahead with its 1988 test of add-

(Continued on page 4)

Nichols to Trim 11 Money-Losing Units

NEW YORK — In a bid to restore profitability, S.E. Nichols will close eight money-losing stores in the next two months in North Carolina and Ohio.

The chain also intends to dispose of three other stores in order to shorten its lines of distribution and control. That would cut its store count to 30 from 41.

The money losers "have been a drain on our company," chairman Manfred Brecker said. "We're leaving the market in order to concentrate on core markets of New York, Pennsylvania, Virginia, Maryland as well as Delaware."

Nichols plans to exit North Carolina and Ohio so it can concentrate on core markets like New York, Pennsylvania, Virginia, Maryland and Delaware.

"We've had a couple of rough years," Brecker said, but the store closings should restore Nichols to profitability this year. He declined to disclose how large a reserve Nichols has established to cover closing costs but said he had factored the estimated chargeoff into his prediction for a profitable 1989.

About 400 to 600 employees will lose their jobs at Nichols' stores in New York; Philadelphia, Ohio; and Gastonia, Goldsboro, Greenville, Lumberton, New Bern, Rocky Mount, and Wilson, N.C.

(Continued on page 4)

It's All in the Cards

Discounters Get a Boost from Changing Shopping Patterns

NEW YORK — Discount stores' interest in courting the home office shopper comes on the heels of their tremendous success in wrapping up a major share of the greeting cards business.

"Today, mass retailers [including drug and food outlets] control 50 percent to 52 percent of the business," reported Tom Tisdale, vice president of marketing for Taylorville, Ill.-based Sangamon. "There has been a shift away from card shops."

With time at a premium, shoppers are picking up greeting cards at the same time they are shopping for other items in discount stores, suppliers said. To that end, discounters have broadened the mix. "The biggest news is the success of alternative cards," observed Pat Ziolkowski, stationery buyer at Hills Department Stores, Canton, Mass.

In line with that trend is Ambassador's "All Moms are Working Moms"—cards dealing with the trials and tribulations of being a mother.

Tisdale at Sangamon said his firm has cards addressing the three major greeting card trends. The company's alternative line—"Starry Night Press"—was recently expanded. The two other major groups Sangamon has identified as having great potential are people over 55 and those returning to more traditional values. A line called "The Best of Times" is aimed at the upwardly mobile older population; "Blessings of the Heart" are inspirational messages. For the 55-plus set, Ambassador has its "Young at Heart" offerings. Ambassador is also fine-tuning its fixturing for mass retailers. Its new invisible fixtures allow more cards to be displayed and its color cue system makes it easier to find each type of card.

Even more dynamic than card sales right now are sales of gift bags which can be used to "wrap" gifts. Chains such as K mart and Hills are adding more of the bags as well as coordinated ribbons. "The gift bags are the hottest new products," said Tisdale. He added that they are bringing in new customers rather than stealing from gift wrap.

"Many people, especially in dual-income families, don't take time to wrap packages," said Carlton Cards product manager Luke Eliadis. "The trend is toward convenience and alternative wraps. Buy a bag and some tissue and it's done." Alternative wraps are growing at an estimated rate of 15 percent to 25 percent.

The gift bags were first seen a few years ago at the National Stationery show, which will be held this year at the Javits Center on May 21 to 24. Although many mass market suppliers do not exhibit at the stationery show, some said they will walk the show looking for the next wave.

In the meantime, many in the industry are buzzing over rumors of a change of dates for the back-to-school show. Several said they wish it would be moved to November since most retailers complete back-to-school buying plans in October. Others favor the show in February because retailers come in force and attend both BTS and Toy Fair. Thalheim Expositions in Manhasset, N.Y., said the 1990 show will remain as slated—Feb. 10 to 12 at the Javits Center.

Stationery Business Goes to the Office

By Faye Brookman
Special to DSN
Nationwide DSN Report

When he is not on the road, Howard Shatinsky's commute to work consists of seven stair steps. That is all separating Shatinsky from his bedroom and his office in the basement of his home in Mansfield, Mass.

Shatinsky used to purchase file folders, staples, copy paper and tape at BJ's Wholesale Club before discovering a nearby Staples. Now he has noticed a better selection and the multiple packs of items he needs featured at the local discount store. Shatinsky said that might just be where he goes for his next purchase.

Shatinsky is not alone—about 62 million households in America now have dedicated some space to an office in their homes. It's no wonder that discounters such as Target, Wal-Mart, Hills, Ames as well as K mart are creating home office departments in space culled from social stationery—a category that has since fallen by the wayside as Americans shun the custom of writing letters.

"Retailers used to say they could take 16 items, they'd pick and choose," recalled Jim Schmidt II, assistant vice president, marketing for Kansas City, Mo.-based Stuart Hall Company. "Now they come and want full departments of home office products." Added 3M's Frank Sando, consumer group national account manager: "In the stationery department, home stationery is the buzz word . . . Discounters are really adding to home office departments."

It appears the burgeoning home office departments at discount stores are a reflection of consumer desires. According to one recent study, more customers want to find these items at a mass merchant. In a poll of 1,775 small businesses taken during the fourth quarter of 1988, only 9 percent said they last bought paper at a discount store (including specialty shops such as Staples). But, 14.3 percent indicated they would buy in a discount store in the future.

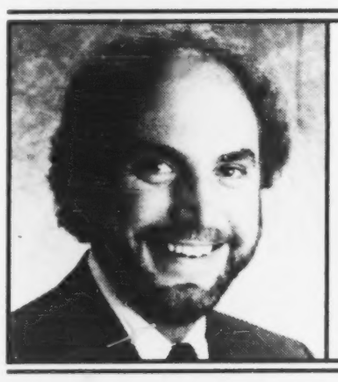
(Continued on page 33)

EDITORIAL

Target Sings New Song of Togetherness

And the music blared: "Oh say can you see who we are. Heart like a wheel, eyes of tomorrow. Oh say can you see what we see, feel what we feel, know what's in store . . . it's a miracle land, we're a miracle people. Taking our quest to be the best . . . Target, Across the USA."

And the second part of T-Day began. Target had already shuttled over 1,500 vendors and guests to its new prototype store in nearby Eagan from the Radisson Hotel South. Now, a Hollywood-style show was underway in the hotel's ballroom to be followed by an elaborate banquet. So far, I thought, it was a clever and entertaining way for the nation's third-largest discounter to tell its story. I was beginning to wonder, after having already talked to several executives at the store, if the tight-lipped Target was beginning to change its style.



TONY LISANTI
Editor

"We're here to celebrate the Target experience—buyer, vendor and customer," said chairman Bob Ulrich. "This get-together today is to let you know that we know just how important you [vendors] are to our company."

The music continued. "Say hello to the buyer . . . I got an upscale mind and a discount heart. We liken our work to the state of the art. Got an ego big enough to fill up a cart or a shelf or an aisle or a store. We're the home town buyer, trend prophesiers, never say diers for the company store."

Then someone mentioned everyday low prices. I thought, how can you be the "premier upscale discounter" and maintain an everyday low price strategy at the same time?

The music continued. The Jets, who were involved in a spring apparel promotion with Gitano, performed live. Shari Lewis was also there with Lambchop and Baby and a new children's photography promotion for Target.

Several suppliers told me that they had never participated in such an elaborate retailer/vendor event before. "This is truly a first class, unbelievable day," said one supplier.

The rap-style song tracing Target's history continued. "We finally got our wish again and strut on in to Michigan. Hello K mart, make my day, Target's here to stay. And now the Southeast comes on strong singing out the Target song. And if you allow a little boast, Target is now coast to coast."

So, I thought the only area Target has yet to penetrate is the Northeast. And, after talking with Ulrich and others, there's no apparent rush. The feeling is that it will happen eventually, but in the meantime there are a lot of markets the chain wants to fill in. Target has grown through acquisition—Fedmart, Gemco, Gold Circle—and if that pattern continues, I believe a likely target in the Northeast that has the upscale style is Caldor.

"Oh say can you see who we are..."

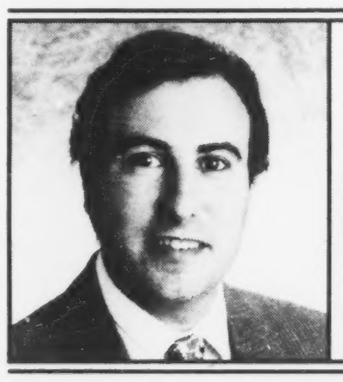
Yes, I think everyone who was there now has a better idea of who you are. And the feeling that night was that a lot of people like who you are, not the way you were. There's a new spirit at Target, and everyone hopes it continues.

BUYERS & SELLERS

Retailers, Vendors Need SPARC of Recognition

I had been a retail business editor for about six years before attending my first SPARC dinner. In that time, I had developed a good degree of skepticism toward the often self-serving comments of industry executives.

Such was the case two years ago as I prepared to videotape a series of interviews with retailers and manufacturers about the importance of the SPARC awards to their organizations. SPARC stands for Supplier Performance Awards by Retail Category. I expected them to say the usual things about the importance of building stronger relationships between retailers and vendors. But, I was unprepared for the genuine expression of emotion and urgency that these execs conveyed during the interviews, conducted prior to the start of the 10th annual dinner.



DON LONGO
Exec Editor

"Anytime you're judged in conjunction with your competitors by the community that you serve, in other words, the retailers, it's meaningful," said Bill Heitman, divisional vp for Cannon. "We, as vendors, like the recognition," added Charles Crane, vp, sales, Williamson-Dickie, "but the most outstanding aspect is the honor bestowed on the retailer." For over a decade, *DSN*'s Discounter of the Year award has been handed out at the SPARC banquet. Recent winners include K mart chairman Joseph Antonini and Wal-Mart ceo David Glass.

The enthusiasm for SPARC wasn't confined to the vendors. Award committee members like John Little, formerly of Rose's and now with Consolidated Stores, Joe Hatfield of Wal-Mart, Gene O'Donnell of Hills and Bill Rokoff of Makro were equally impressed with the stature of SPARC.

"More and more retailers see the benefits of participating in this type of event," said Rokoff. "By recognizing the industry leaders and what they have been able to achieve over a series of years, we are looking beyond the short term and recognizing long-term success," added O'Donnell, who is chairing the SPARC retailer committee for the second consecutive year. This year's 12th annual SPARC banquet—to be held Sunday evening, Aug. 13, at the Downtown Marriott, Chicago—promises to be even bigger and better than past year's.

Finalists in the 20 supplier award categories have not been released yet by the retailer committee, but an impressive list of successful retail executives are already vying for Discounter of the Year honors. If you have not already done so, turn to page 12 of *DSN*'s May 8 issue and cast your ballot for Discounter of the Year. The deadline for ballots is June 15.

WASHINGTON REPORT

RPM Makes Mockery of Fair Trade Principles

It's hard to believe, but we're closing in on the 14th anniversary of federal legislation that put an end to "Fair Trade"—a shabby, anti-consumer conspiracy to maintain resale prices and prevent the spread of discount stores.

The reason it's hard to believe that Fair Trade has been dead and buried since 1975 is that, in reality, these anti-competitive practices are flourishing in the marketplace.

KEN RANKIN

They were revived after the 1980 election by wrong-headed Reagan administration antitrusters and Orwellian "Chicago School" jurists who employ convoluted reasoning to "prove" that being forced to pay artificially high prices benefits the American public.

The result has already been a serious decline in competition at the retail level. If the trend continues, chains like K mart, Target and Wal-Mart may find it difficult to continue calling themselves "discount" stores.

Don't take my word for it, though. Here's what Ohio senator Howard Metzenbaum had to say on the subject:

"If manufacturers are able to control the price at which otherwise independent retailers are able to sell their products, consumer welfare will be directly harmed. Discount retailers would be subject to the control of their suppliers and would no longer have the independence to set prices and engage in healthy competition."

Metzenbaum has introduced legislation, S. 865, which would outlaw resale price maintenance conspiracies under federal antitrust laws.

Just as important, the bill would clarify the standards of evidence necessary to establish an RPM conspiracy in court—standards which were thoroughly scrambled by the Supreme Court in its two most recent RPM rulings.

Metzenbaum isn't alone in seeking these reforms. His bill has drawn strong bipartisan support from a score of Senate co-sponsors. However, this legislation won't go anywhere without active support from consumers and from the discount store industry. The next move is up to you.

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HOME OFFICE Merchandising

MAY 1989 SPECIAL SUPPLEMENT DISCOUNT STORE NEWS

(DSN photo)

Megastores Expand to Avoid SHAKEOUT

Rapid expansion is seen as vital to establishing the store base needed to weather the shakeout that is predicted for megastores

By Arthur Markowitz

Rapid expansion is the name of the game now being played out by the top companies in the discount office supply industry.

What's at stake for these chains is becoming one of the dominant, even surviving, players in the megastore segment of the exploding office supply field, whose overall sales this year are expected to reach $100 billion (at retail), up from about $95 billion.

Two related factors are behind these specialty retailers burgeoning growth to about a $1.5 billion business this year, more than double the $700 million in sales the segment's nucleus of 20 chains recorded last year. (Traditional office supply wholesalers accounted for about 75 percent of the overall industry's sales in the past, with small mom and pop stationery stores and other retailers for the remaining volume.)

For starters, fast growth attracts investors, at first venture capitalists to anchor a fledgling business, and later Wall Street when a chain decides to go public.

BizMart, O.P. Club, Office America, Office World and Staples were among the chains funded by venture capital groups. Last month, Montgomery Ward, recognizing the growth of the megastore business,

(Continued on page 22)

Expansion Continues

By using the warehouse format and the superstore concept, megastores dominate the office supply market

(Continued from page 19)

took a major equity position in Office World, while Staples became a publicly held company, joining Office Depot, Office Club and HQ Office Supplies. The latter, in fact, went public before opening any stores, obtaining Wall Street backing due to the financial community's romance with the concept pioneered by Staples three years ago.

At the same time, rapid expansion is seen as necessary to establish the extensive store base needed to weather the shakeout that executives predict will batter the megastores in the next two to five years.

The explosive growth undertaken by the top 20 chains will see more than 165 new megastores open this year, pushing the industry's count to over 365 units. This growth comes on top of about 100 new stores in 1988.

The spectacular development of the megastore industry takes place as chains, attempting to carve out distinct market niches, delineate their businesses into specific formats and pursue explicit expansion programs.

Providing small and medium-sized businesses with one-stop-shopping for their office supplies continues to be the core business for the megastores. The specific merchandising approach, however, takes one of two basic formats.

One method is the warehouse format, exemplified by Office Depot, which involves focusing operations on supplying businesses, using the warehouse environment—steel fixtures, concrete floors, bare ceilings—pioneered by membership warehouses. Some chains like Office Club even sell memberships, enabling cardholders to buy goods at 10 percent less than non-members.

The other approach is the superstore concept, which adds a number of traditional retailing features to the basic warehouse format. As typified by Office World, these include the greater use of gondolas, tiled floors, carpeting in the furniture area and even the marketing of consumer items to generate additional sales.

On the expansion front, chains are following one of two pathways.

The route followed by many chains calls for opening stores in a diverse array of markets. BizMart plans to grow from 10 stores in two states to 28 units in four states while Office Depot, currently with 26 stores in five Southeast and Central states, is set to add 29 more units and expand into four more states.

This plan has markedly heightened competition in the discount office supply field as chains enter each others' markets and battle for customers. Office Depot, for example, faces Jaffe's, WORKplace, Office America and BizMart, while the latter's competitors also include The Office Place, Office Club, Arvey, O.P. Club and Super City.

The other approach, used by smaller, local megastores like National Office Warehouse and The Office Place, is to add stores in current communities. The goal is to lock up current customers and thereby ward off any inroads by larger, multi-regional and national chains.

Office Supply Megastore Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Earnings (In Millions) 1988	Earnings (In Millions) 1987	Number of Stores 1/89	Number of Stores 1/88	Number of Stores 12/89**
Office Depot Boca Raton, Fla.	$132.0*	$ 33.7*	291.0%	$1.4	($2.3)	26	10	55
Staples Newton, Mass.	115.0*	39.7	189.7	NA	($2.3)	22	9	33
Arvey Paper & Office Products Chicago	100.0*	90.0*	11.1	NA	NA	36	34	40
Super City Tucson, Ariz.	100.0*	100.0*	0.0	NA	NA	16	17	16
Office Club Concord, Calif.	52.1	10.3	376.0	(3.3)	(2.6)	16	5	28
Jaffe's Miami	40.0*	15.0*	166.6	NA	NA	10	7	14
The Office Place Boulder, Colo.	25.0*	24.0*	4.2	NA	NA	6	5	15
WORKplace St. Petersburg, Fla.	25.0*	10.0*	150.0	NA	NA	6	2	12
BizMart Arlington, Texas	20.0*	—	—	NA	—	10	0	28
Office America Richmond, Va.	15.0*	2.0*	650.0	NA	NA	5	1	14
The Paper Cutter Liverpool, N.Y.	15.0*	12.0*	25.0	NA	NA	14	12	22
Action Indianapolis	11.0	7.0	57.1	NA	—	5	4	7
Office Shop Warehouse McKeesport, Pa.	10.0*	—	—	NA	—	6	0	6
O.P. Club Phoenix, Ariz.	10.0*	—	—	NA	—	6	0	15
Office World Great Neck, N.Y.	8.0*	—	—	NA	—	4	0	14
National Office Warehouse Columbus, Ohio	7.0	5.0	40.0	NA	—	3	2	8
OfficeMax Solon, Ohio	5.0*	—	—	NA	—	3	0	15
Office Square San Antonio, Texas	5.0*	—	—	NA	—	2	0	2
OW Office Warehouse Virginia Beach, Va.	5.0*	—	—	NA	—	2	0	14
HQ Office Supply Warehouse Long Beach, Calif.	—	—	—	—	--	0	0	10

*DSN estimate NA—not available **projection

Source: *DSN* research; company reports

Membership Warehouses Face the Fax of Business Services

By Richard C. Halverson

Warehouse clubs are venturing into the business service operations that office products chains offer to help snare additional customers.

Sam's Wholesale Club, for instance, is testing what it calls "Sam's Express Center" in its Southwest Freeway store south of Houston.

The center will print business cards, letterhead and envelopes, and emboss company names on standard business forms. It also offers fax and photocopy services as well as custom rubber stamps.

Sam's Express Center goes office product chains one better by serving as a drop-off for United Parcel Service and Airborne shipments.

(DSN photo)

HQ Office Supply, Culver City, Calif.: Signage spotlights business services offered.

Sam's levies a slight service charge for shipments, so the cost is a "bit more expensive" than shipping directly, a center employee said.

But for printing, "the center offers some of the lowest prices around, especially on business cards," the employee said. Citing a Sam's policy, he refused to quote prices over the phone.

Costco, the Kirkland, Wash., warehouse chain, confines its business services to a limited range of printing. Costco has operated a print shop in its Portland unit for four years and another in a Seattle-area unit for a year.

Now, it is considering opening print shops in San Francisco and Clearwater, Fla., by year-end, said president and chief executive officer Jim Sinegal. Costco will offer printing at just one warehouse club in each market, Sinegal said.

Costco offers only limited bindery services, such as folding and stapling, said Sheila Sweet, a press operator in the Portland Costco. "If you can work within the limits of the printing services we offer, the service is really reasonable," she said.

The print shops turn a profit, Sinegal said, even though rates are

(Continued on page 24)

HARD LINES

AUTOMOTIVES / HEALTH & BEAUTY AIDS / HARDWARE / TOYS / STATIONERY / SPORTING GOODS / DIY

Stationery Biz Goes to the Office

(Continued from page 3)

"That represents the largest growth by any type of outlet," claimed Ray Boggs, director of the small business market strategy service at BIS CAP International, the firm that conducted the study.

Moreover, figures from the National Office Products Association (NOPA) predict a bright future for the home office arena. Manufacturer shipments of office supplies—excluding furniture and office machines—totaled $13.3 billion in 1988 and should grow at an annual rate of 4.4 percent to over $14.5 billion by 1990.

A just released report from New York-based FIND/SVP suggests the home market is growing sharply because of the emergence of affordable electronic technology, demographic trends, corporate initiatives, changing lifestyles and related quality of life considerations.

Despite the impressive statistics, discounters have been quite leery of the home office category. What had to be determined was a profile of the discount home office shopper. The profile that has emerged is a consumer who holds down a full-time job, but also does work or attends to bills in a home office, as opposed to customers who generate most of their revenue at home. According to BIS CAP, at least 12 million households fit this mold. Serving these customers appears to be the discount store's niche.

"My customers are not those who use their home office as their primary place of business," said Hills stationery buyer Pat Ziolkowki. "My customers are two-income families who like to have an office just to be organized or have a place to keep files for paying bills."

Multi-pack benefits are enhanced profits and a higher price tag. Already a profitable area, home office goods yield in the 30 percent margin range.

Now that discounters have identified the customers they want to court, departments are being enlarged from small 4-foot sections to full-fledged 20-foot runs and more. "Home office is a growing area for us and we are devoting more space to it," said Bill Roberts, public relations manager at Ames. "Our best sellers include copy paper and multiple packs." The home office market is so vital to Ames that it has a separate division of office warehouse stores called Office Shop Warehouse. There are six of these outlets.

But sources at the office superstores and discounters are quick to point out they are not direct competitors. Staples vice president of marketing, Todd Krasnow, said the 24-store specialty chain targets small offices of one to 50 people. "We stay away from mass products and lines. You won't find mauve phone answering machines and you won't see a lot of trends in commodity items," he said. What can be found at Staples are bulk quantities and huge multiple packs.

Multiple packs, however, are also catching on at discount stores, but in reduced sizes from those available at home office warehouse stores.

"Home users would like to buy quantities and save money," said Brian Kest, marketing manager, home and office products for Mead Products. "But in a mass store they are not going to buy something so bulky that they can't carry it out with their other belongings."

Ziolkowski at Hills agrees that although there is a demand for grouped packs, there is a delicate balance to master. Multiple packages of 10 may be too much, but groups of three or five are often just right, she observed.

Sando at 3M cites Post-It Brand Notes as a prime example of a hot item that really sizzles as a multiple pack. The Post-Its are grouped in packs of anywhere from three to 24. According to John Cincotta, director of marketing for Sheaffer Eaton, the multiple pack frenzy has hit the writing instrument portion of the business, too.

The benefit of multiple packs, retailers add, is enhanced profits. They assume about the same amount of space as a single pack, but multiple packs carry a higher price tag. That is good news to an already profitable area with home office goods yielding margins in the 25 percent to 30 percent range.

Discounters are also squeezing greater profits out of the category by upgrading the mix. Cincotta has observed a willingness of customers to opt for more expensive pens and mechanical pencils (Sheaffer Eaton has products ranging from 99 cents to $500). And Krasnow at Staples said high-end writing items such as Cross Pens are gaining favor as people view them as not only an investment but as a great gift item. Another prime example is Stuart Hall's Executive Line of business pads which includes the Executive Project Planner, a pad with space created for page numbers, subject identification and room to write down follow-up actions. A testament to its success, he said, is that officials at Wal-Mart use the pads in meetings.

Manufacturers have injected fashion into the once mundane office supply category with splashy colors. Canary yellow remains the favorite choice of paper, but primary colors have been appearing in paper and Post-It notes have an offshoot by 3M called Creative Expressions with cute sayings and shapes.

With home office consumers buying all these new items and gadgets, it is only logical they need more storage aids. Several suppliers have come to the rescue with upscale offerings.

"The growth in home office is in storage—magazine files, hanging file folders and plastic magazine folders," responded Eric Buresch, national sales manager of Fellowes Manufacturing Company in Itasca, Ill. A few new items the firm is highlighting include a carry-all file, a two-year home file and multiple packs. Buresch said color is important in storage. Over the past few years, jewel tones have predominated, but are being supplanted by black, white and red, he said.

Design-A-Space Line

Rubbermaid Inc., a pioneer in the mass home office arena, has introduced new offerings in its Design-A-Space line. According to Linda Whyte of Rubbermaid, Design-A-Space is an office system that allows consumers to put an office together horizontally or vertically.

The new items include an in/out tray, two new wall pockets, a long-term file and a storage clipboard.

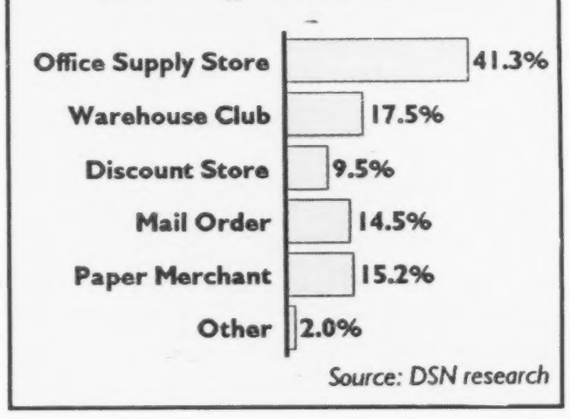
The increase in home offices also means an upturn in home mailing, according to Pat Macko of Cleveland-based Manco Inc., which manufacturers Care Mail and Cookie Box. The firm is also responding to the multiple pack craze by grouping its mailers in combination packs.

Office Products Market Potential

	1988 (In Billions)	1990 (In Billions)	Annual Growth 1988-1990
Office Supplies	$13.37	$14.56	4.4%
Wood Furniture	1.89	2.19	—
Non-Wood Furniture	5.99	7.05	—
Furniture Subtotal	7.88	9.24	8.3
Office Machines	9.49	10.04	2.9

Source: National Office Products Association

Where Consumers Last Bought Home Office Merchandise



Source: DSN research

MARKETWATCH

1Q Earnings Dip

CARSON, Calif. — Pic 'N' Save disclosed that first quarter earnings will fall 15 percent to 20 percent below last year's $7 million, or 18 cents a share, because of high expansion costs. The chain opened or acquired 35 stores last year, including 25 in the fourth quarter of 1988, and associated expenses will drive down first quarter earnings, the company said. William M. Jacobs Jr., senior vice president and chief financial officer, said the firm plans to open 25 to 30 more stores this year. The chain operates 162 stores with the Pic 'N' Save name in the West and South and Odd Lot Pushcart name in Metropolitan New York.

Trak Falls Off Track

LANDOVER, Md. — Net profits of Trak Auto fell 40 percent in the year ended Jan. 31, 1989, on a sales increase of 14.6 percent, chairman Herbert H. Haft announced. Net income fell to $2.8 million, equal to 47 cents a share, from $4.7 million and 78 cents a share a year earlier. Sales rose to $243.1 million from $212.2 million in 1987. Trak declined either to release operating profits or explain the reason for the decline in net income. Trak runs 285 stores, a gain from 251 stores last year.

New Display at Show

CHICAGO — The National Hardware Show this year will feature a new display section, "Technology Showcase," where computer and software makers can display their wares in a special section. So far, 15 vendors have signed on for the special section. The show runs from Aug. 13 through Aug. 16 in Chicago's McCormick Place.

Sports Shipments Up

NORTH PALM BEACH, Fla. — The wholesale value of sporting goods shipped during 1988 rose 7.7 percent to $39.8 billion, the Sporting Goods Manufacturers Association estimated. The total included: $8.9 billion for equipment shipments; $8.2 billion for apparel; $6.9 billion for footwear; and $15.8 billion for transport. In equipment, golf represented the largest share, $1.2 billion, with firearms and hunting trailing at $1 billion.

Lionel Toys with POP

NEW YORK — POP (Point of Purchase) Radio landed 84 of Lionel Leisure's toy stores as clients for its in-store ad service. The service combines music from Muzak with promotional announcements and vendor ads in a mock radio broadcast format. Since 1986, Toys "R" Us, whose format uses the call letters, WTRU, has been a toy chain client of POP. Lionel operates stores under the Kiddie City and Playworld chain names, plus two chains under the Toy Warehouse name.

Upbeat Target Celebrates 'Togetherness' with Suppliers

(Continued from page 1)
partnership we enjoy with one another that allows all of us to celebrate the Target experience."

Said Warren Feldberg, executive vice president, merchandising, "Our mission is to be the premier upscale discounter, not the pretty-good or the me-too discounter."

Target, which spared no expense to wine, dine and entertain its guests, also used the occasion to showcase its new prototype store in the nearby suburb of Eagan, and celebrate the opening of 30 former Gold Circle stores throughout the Southeast.

The event was themed "Across the USA," touting the fact that Target's 379 stores now stretch from coast to coast. Only the highly competitive, but potentially lucrative, Northeast remains elusive to Target.

With 379 stores, Target projects that it will reach 400 stores in 31 states by year-end, adding over $1 billion in sales.

'There is room for 100 Target stores in the Southeast," said Jack Fontaine, senior vice president, property development. "The region has the volume potential of $2 billion-plus by 1995." Fontaine also pointed out that Ohio and Illinois, which are key states for expansion in 1990s, can support 100 stores. He said that Target will continue to pursue acquisitions as a tool for growth.

Target could have well over 500 stores and sales of $10 billion by 1992, according to analysts' projections.

Ulrich said that while Target is "optimistic" about its new everyday low price format, which was implemented in its 30 Southeastern stores, there is no immediate plan to adopt the policy chainwide.

Dozens of vendors admitted they were "totally impressed" with the day-long program and had never been part of such an elaborate retailer/vendor program.

The two-hour show featured an update of the chain, a history of its growth, and new marketing strategy. Presentations by Target executives were intermingled with songs and live performances from the Jets, The Judds, Shari Lewis and Will Steger.

Target also announced a new holiday promotion based on the Velveteen Rabbit, which will be featured in a Christmas stocking.

In addition to its aggressive marketing programs and new prototype, other key developments include:

- A total of eight regional distribution centers by mid-1990 which will process 85 percent of its merchandise. This includes the opening of a new DC in Tifton, Ga., in 1990 and the expansion of facilities in Los Angeles and Little Rock, Ark., this year;
- The implementation of satellite communications between headquarters, stores and DCs this fall;
- The test of a scanning system that automatically deactivates the EAS tags;
- Quick response program to improve in-stocks.

Auchan to Clothe Chicago's Hypermarket by End of Year

(Continued from page 1)
store when it is expanded to 160,000 square feet.

Auchan's goal is to become an American, rather than a foreign, retailer in its U.S. operations, Jacques Marcelin, president and ceo of the Auchan Group and chairman of its American subsidiary, O'Field, told *DSN*.

"We came to the U.S. to become an American company and we certainly need time for this," he said, adding that "six years is the time in which to make a decision on further expanding within the U.S."

David Skinner, general manager of the Bridgeview store, said Auchan would basically draw shoppers within a three to five mile radius, with some customers coming from as far as 10 miles. The store's core trading area of about 88 square miles is home to about 210,000 people.

Its immediate competition includes a Venture, co-anchor in the Bridgeview Court Shopping Center, a K mart across the street, and nearby Zayre and Warehouse Club stores. The broad range of other retailers within the trading market is exemplified by Sears Ltd., Montgomery Ward, Service Merchandise, Fretters, Office World and Phar-Mor Pharmacy. Supermarkets include two major Chicago area chains, Jewel Food and Dominick's, and independent operators.

Auchan researched the Chicago market for over a year, using a market research firm to survey what consumers wanted and shopped competitors to ascertain what was actually being sold. This information was used to determine the store's mix and the price points of its 40,000 sku's.

The assortment breaks down to approximately 70 percent food and 30 percent non-food (and is expected to swing to about a 60-40 ratio when apparel is added). Food takes up about two-thirds of the approximate 80,000 square feet of selling space.

Skinner explained that Auchan has gained experience in the food business through its parent's operation of a franchised Cub Foods unit in Joliet, Ill., for almost four years.

"We took a pragmatic approach as we knew the grocery business but we hadn't learned the non-food business," Skinner said. "We decided to focus on hard lines to develop professionalism in that area before moving on to apparel."

The proposed apparel section will be added to the front right side of the store which now houses the sporting goods department. The physical extension will result in a slight reconfiguration of that area of the store, including extending the checkout section which now contains 36 lanes.

Auchan executives declined to comment on expected sales, gross margins or profits beyond noting the parent company, through its Houston and Chicago ventures, had made a long-term commitment to the American market.

Skinner said trade projections of $1 million a week in sales at Bridgeview "aren't unreasonable." He expected food to account for about 80 percent of the store's volume and non-foods 20 percent, with general merchandise capturing a larger share when apparel is added.

Auchan expects to be profitable by adjusting its mix to focus sales on higher-margin categories. "There is a margin in non-food different from grocery and there is a margin in perishables different than dry groceries," Skinner said.

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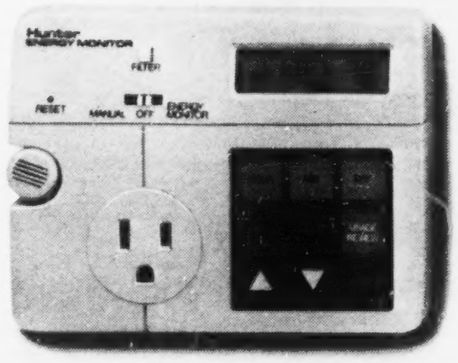

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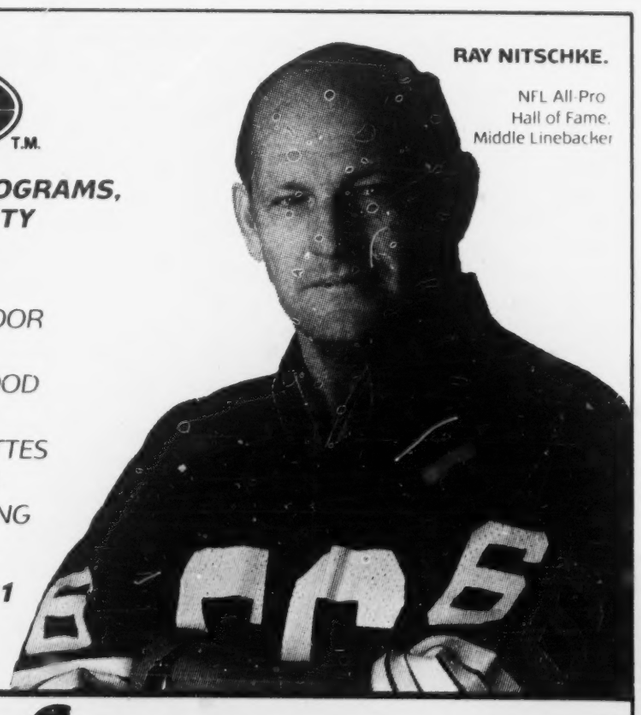

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K mart's Aggressive Plans Call for $40B Sales by 1995

By Don Longo

TROY, Mich. — K mart Corp. is moving ahead aggressively with plans to exceed $40 billion in retail sales by 1995.

Those plans include:

- Opening more, and larger, K mart stores;
- Boosting inventory turns by at least 0.25 turns chainwide yearly over the next five years;
- Relying on its specialty retailing division to contribute a greater share of sales and profit growth;
- Fine-tuning its marketing and advertising program to spotlight merchandise unique to K mart, like Martha Stewart and Jaclyn Smith products, as well as lower prices on 8,000 items in the stores;
- Instilling in each of its 350,000 employees a mission-

(Continued on page 81)

'We intend to run stores which help Americans attain the quality of life guaranteed in the American dream sooner, better and more conveniently than anyone else.'
—Joseph Antonini

IMRA Speakers Advise: Change With The Times

Fewer Chains, But More Execs Meet, Greet at Orlando Show

By Richard C. Halverson

ORLANDO, Fla. — As it could be expected from a convention themed "Directions Today and Tomorrow," change proved to be the dominant theme of this year's gathering of the International Mass Retail Association.

The continued decline in the number of chains represented left many exhibitors griping again about the lack of retailers in attendance.

This year, their complaints appeared more valid than ever, as consolidations, dissolutions and Chapter 11 bankruptcy problems helped trim the number of chains represented to 46 from 57 in 1988.

The number of retailer executives registered to attend actually gained a tad, however, to 160 from 157 last year.

In a change for IMRA itself, William L. Atkinson, chief executive officer and president of Towers Department Stores, based in Ontario, Canada, became chairman of the board. He replaced Stephen Goldberger, chairman and ceo of Hills, who served for two years as IMRA chairman.

Speakers at various general sessions and seminars also emphasized the changes affecting the U.S. retailing scene as well as the world economy.

"The balance of the 20th century will witness, absolutely, the most competitive retailing environment anyone in this room has ever witnessed," said Larry M. Parkin, K mart executive vice president for warehouse and grocery operations.

Speaking in general session, Parkin predicted that "consolidation of retail name plates under fewer corporate mastheads will continue, and,

(Continued on page 81)

Outgoing chairman Stephen Goldberger thanked the IMRA membership for their 'faith' and support during the last two years. (DSN photo)

CE Continues Explosion in 1988 Fueled by Color TVs, Fax, Audio

By Peter Hisey

WASHINGTON — The CE explosion continued unabated in 1988, accounting for $30.6 billion in factory sales worth about $43 billion at retail, according to an annual report issued by the Electronic Industries Association.

Color televisions accounted for $6.6 billion of the factory sales, with VCRs the second-most lucrative product at $5.1 billion. Audio equipment, spurred by increasing CD player, personal stereo and car stereo sales, also increased sharply, offsetting slumping home radio and blank tape sales.

Despite the increase in color TV features (screen-within-screen, remote control, MTS, etc.), larger set sizes (including popular projection models) and shortages of bottom-end sets, the price per unit held steady at about $325 apiece at wholesale.

Real-dollar expenditures at retail for television sets have been declining steadily in recent years, while consumer prices as a whole have been rising, making television a relatively good buy, the report concluded.

Stereo television sales rose to $2.5 billion, from $2.2 billion in 1987 and $208 million in 1984, and it seems that with the increase of stereo broadcasts and a build-up in home audio/video centers, the option is on its way to becoming standard equipment.

(Continued page 59)

Expanded CE Coverage:

Summer CES Preview page 19
CE Specialty Chains page 67

Schottenstein Wins Bid for Dry Goods

Five Philadelphia Units Will Reopen as Value Citys

By Kenneth M. Chanko

COLUMBUS, Ohio — Schottenstein Stores Corp., which owns the Value City general merchandise discount chain, has purchased five Dry Goods stores in the Philadelphia market. It will reopen the units as Value City stores in late summer or early fall, according to Jay Schottenstein, vice chairman of the board and chief operating officer.

Schottenstein outbid Burlington Coat for the Dry Goods stores in a federal bankruptcy court proceeding. Last November, The Dry Goods, an apparel off-pricer, filed a Chapter 11 petition to reorganize.

Schottenstein, who would not disclose the purchase price, also acquired the entire inventories of the five Dry Goods stores, plus the inventories of the last two remaining stores, which were not put up for sale, he added.

The five 80,000-square-foot to 100,000-square-foot Dry Goods stores are located in

(Continued on page 81)

Bigg's Plans 3 New Stores To Anchor Off-Price Malls

CINCINNATI — Bigg's is set to anchor three off-price and mixed-use shopping centers due to open over the next three years, one in Denver that will mark the hypermarket's expansion outside of its home here and two in nearby Louisville, Ky.

Bigg's plans to open at least three other hypermarkets, including another in Denver and one in Tampa Bay, over the next few years.

The decision by Bigg's to anchor the three off-price malls denotes a growing trend in the shopping center field whereby hypermarkets are used as the full-line retail attraction for outlet and multi-use malls. Hypermarkets' marketing of foods and general merchandise and their avoidance of the term discounter in favor of such expressions as everyday low price makes them a favorite candidate to anchor such shopping centers.

The three Bigg's, one to open in each of the next three years, will double the chain's count to six units—five hypermarkets and one warehouse food store. Bigg's, which has two hypermarkets and one food-only store in Cincin-

(Continued on page 82)

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MARKETWATCH

Wal-Mart Delays Hypermarket Opening

BENTONVILLE, Ark. — Wal-Mart has delayed the opening of its fourth Hypermart USA, a 268,000-square-foot unit in Kansas City, Mo., to early 1990. The opening, first slated for later this year, was pushed back because of construction delays and to avoid the possibility of not being at full strength for the holiday buying crunch. The unit's merchandising will reflect the fact that it will be in Benjamin Plaza, a new office complex/strip center across the road from Bannister Mall, Kansas City's most popular traditional mall which has a Sears as one of four anchors.

Sears, NBC in Joint Promo

CHICAGO — Sears and NBC have joined forces in a contest designed to boost the retailer's store traffic while increasing viewing of the TV network's fall prime-time programs. The venture's cost wasn't announced, but it will be based on traditional promotions used by both firms. The sweepstake is similar to one announced last month by K mart and CBS (see DSN, May 22, page 1), with ABC also reportedly considering a promotion with an unidentified retailer. The Sears NBC campaign—"America's Brightest Stars—NBC, Sears and You"—will begin Sept. 3 and is expected to generate over 5 billion gross impressions from TV spot ads and the retailer's promotions in circulars, stuffers in credit card mailings, in-store banners, and posters and contest entry forms available in the stores. Participants have to answer questions about the NBC TV shows, with answers in the weekly Sears circulars.

Two Top Executives Leave Brendle's

ELKIN, N.C. — Two top Brendle's executives have left the 40-store cataloger. William F. Cosby retired this month as senior vice president of merchandising to pursue real estate interests while James S. Overstreet resigned last month as vp of operations to pursue other business interests, the company said. Brendle's sales last year jumped 14.5 percent to $261.3 million from $228.2 million, while net income, before reserves for the closing of three stores, rose 7.4 percent to $4.2 million from $3.9 million.

Arapaho Opens Denver Megastore

DENVER — Arapaho Office Express opened a 29,000-square-foot unit in downtown Denver as the city's largest office supply megastore. An American Indian enterprise, the venture is owned by Ava Hamilton (left), a member of the Southern Arapaho tribe, with a minority interest held by Jirka Ryssavy (right) a Boulder, Colo., businessman and top officer of The Office Place, a Colorado office supply discounter. Arapaho will donate a portion of its profits to American Indian business and cultural activities.

Minitel Offers Gateway to World

NEW YORK — American computer users can reach Minitel, the French computer information and shopping service, through a local phone call using free software provided by the videotex service. Minitel expects to become a gateway to similar services in Belgium, Italy, Spain, West Germany and Finland by year-end.

Experimental Coupon Program Underway

STAMFORD, Conn. — An experimental supermarket electronic couponing program, designed by Citicorp Information Systems, is being expanded to include rebates and bonus certification at El Monte, Calif.-based Vons Grocery Co. Shoppers who have a special card will receive rebates for coupons that have been electronically stored in computers. Cardholders will also get bonus certificates based on their past shopping history, with the incentives targeted to counter competition from new stores and encourage casual customers to become intensive shoppers.

Guide to Bar Code Standards

PITTSBURGH — The Federation of Automated Coding Technologies has issued a "Bibliography of Bar Code Specifications and Application Standards." The free publication lists the prices, types of symbologies used and ordering information for standards and specifications in 50 industries, including retailing, grocery manufacturing and distribution. The publication is available from AIM USA, 1326 Freeport Road, Pittsburgh, Pa. 15238. Phone: (800) 338-0206. Fax: (412) 963-8753.

1st Quarter Results Roundup

Wal-Mart Cites Apparel for Surge; K mart Blames Weather for Slump

Nationwide DSN Report

A sampling of first quarter results showed that Wal-Mart may be third in sales among both discounters and mass merchandisers but ranked first in terms of growth rates for both sales and operating profits.

Wal-Mart enjoyed a first period sales growth of 25 percent to $5.37 billion from $4.28 billion in the year-earlier period. Operating profits increased even more—29 percent—to $314.7 million from $243.9 million in the first quarter of last year.

In announcing results, president and chief executive officer David Glass explained that improved apparel sales and better in-stock positions drove revenues. Improved expense control and better inventory management enhanced profits.

In comparison, sales for K mart, the nation's largest discounter, rose 3.9 percent to $6.07 billion from $5.84 billion. Operating profits declined 22.7 percent to $147 million from $190.2 million.

Chairman Joseph Antonini attributed the profits slump to cool weather in March and early April which affected sales of patio equipment, green goods and apparel.

At Sears, the nation's largest retailer, sales rose 11.9 percent to $6.76 billion from $6.04 billion a year ago. Net profits of its merchandise group increased to $33.8 million from $18.7 million before an accounting change for income tax reporting.

After that accounting change, Sears restated its 1988 first quarter results to show a net profit of $369.8 million.

Sears' results include a full month of its new everyday low price policy instituted March 1. "We are delighted with consumer response,

(Continued on page 82)

OfficeMax Enters Buffalo Market

SOLON, Ohio — OfficeMax, pressing ahead with its plan to open a dozen units this year, unveiled two megastores last month, one of which marked the chain's entry into the greater Buffalo, N.Y., area.

The first 23,000-square-foot Buffalo OfficeMax is located in the Maple Ridge Centre in suburban Amherst. The second store, scheduled to be opened later this month, will be in the Union Road Plaza Shopping Center in suburban Cheektowaga.

The other OfficeMax megastore opened last month was a free-standing 25,000-square-foot unit in the Southfield suburb of Detroit, the chain's second store in the Motor City.

The three stores include 1,500-square-foot Inacomp Computer Center sections, which OfficeMax unveiled in its first Detroit store, opened in March in the Madison Place Shopping Center in suburban Madison Heights.

OfficeMax includes Soft-

(Continued on page 80)

Costco, Price Savers Moves Exemplify Club Maturity

Nationwide DSN Report

LOS ANGELES — The maturation process of the membership warehouse club industry was further illustrated by two recent events at Costco and Price Savers.

Seattle-based Costco called for a redemption of its convertible subordinated debentures, while The Kroger Co. completed the sale of Price Savers for an undisclosed price.

Kroger's sale of Price Savers is part of a financially defensive restructuring move begun by the parent company last October. Kroger, however, still maintains a 40 percent interest in the membership warehouse club chain, along with current Price Savers executives.

Since initial announcement of the pending sale, Price Savers has been scaled back from 16 locations to 13 sites via the sale of three Cincinnati area warehouses to Wal-Mart for its Sam's Wholesale Club operation. The move halted the Salt Lake City-based company's eastward march, and its attention now focuses on the West Coast, where Price Savers will open three sites this year.

For Costco, the financial move allows the 53-unit warehouse club chain to improve its balance sheet, company chief financial officer Richard Galanti told *DSN*.

By taking a $108.5 million outstanding bond and prompting conversion of the debt to common stock, he said Costco can reduce its debt, increase equity and save money on yearly interest payments. Galanti said Costco was able to make this move now because its stock is trading about $5 above the $18 redemption price of the debentures, making the conversion to stock especially favorable for bond holders.

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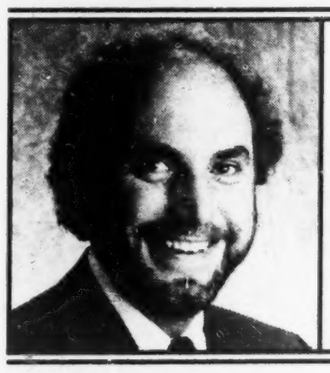
EDITORIAL

Welcome the New Breed of Discounters



TONY LISANTI
Editor

Again and again, retailers, analysts and other industry observers talk about the demise of discounting by comparing today's top chains with the top chains of 10 years ago. One can certainly make a dramatic point by stating that only 10 of the top 20 chains in 1979 are still around.

However, that statistic is only part of the story. Nobody will argue the fact that the world of discounting has changed and continues to change. What I don't understand is why everyone memorializes the chains that aren't around, but few praise the chains that have survived and grown.

Furthermore, what about giving credit to all the retailers that weren't even in existence in 1979 and are thriving in today's competitive marketplace? Gone are Woolco, TG&Y, Gemco, Fedmart, King's, Korvettes, Two Guys and others. But in their place are such chains as Price Club, Sam's, Costco, TJX Cos., Marshalls, Circuit City, Toys "R" Us, and others, such as Staples and Sports Giant, that make up a new breed of discounters.

In the past 10 years, entrepreneurs have identified growth in specialty categories. Almost every major merchandise category offered by a full-line discounter has given birth to a plethora of specialists—auto parts, hardware, electronics, toys, apparel, H&BA, and most recently, stationery and office supplies. This newest segment now numbers a dozen chains that were virtually non-existent three years ago.

In 1979, the membership warehouse club segment had just come into existence. In 1989, the segment will account for almost $15 billion in sales.

In 1979, there were only eight chains that topped the billion dollar sales mark—six chains barely topped it, one hit $2.8 billion and K mart topped $13 billion. In 1989, over 20 chains will top the billion dollar mark. In fact, K mart's sales of about $27 billion in 1989 exceed the combined sales of the top 20 chains in 1979.

In 1979, total discount sales were $55 billion. In 1989, sales for discounters will top $85 billion.

In 1979, there were no hypermarkets operating in the United States. In 1989, there will be more than 10 hypermarkets open. And the volume of just one of these stores equals the total volume of about 10 to 12 discount stores in 1979.

In 1979, the 100th ranked chain in *DSN*'s list of the top 100 chains posted sales of 11 million. In 1989, the 100th ranked chain will post sales of about $140 million.

I could go on and on with these types of statistics, but I'll save it for *DSN*'s annual State of the Industry Report coming in the July 3 issue.

The Russian novelist Aleksandr Solzhenitsyn stated that "the most difficult thing about the past is trying to decide what to take with you and what to leave behind."

I believe it's time to leave the chains of 1979 behind and welcome the new breed of discounters that will reshape the industry during the 1990s.

WASHINGTON REPORT

Texas Bill Would Ban Low-Price Promotions

KEN RANKIN

There are people down in Texas who would like to make it illegal for discounters to engage in vigorous price competition. Indeed, the state Senate is seriously considering legislation making it a crime to sell goods below cost.

Ostensibly, the Texas bill is targeted at curbing "predatory pricing"—which is an "Alice in Wonderland" practice that inefficient retailers often cite to explain why they are unable to compete successfully in an open marketplace.

The pending legislation would not only make below-cost sales a misdemeanor in Texas, but would also encourage "victims" of this practice to get court injunctions and seek damages from their lower-priced rivals.

Supporters of the measure contend that it would prohibit only below-cost pricing activities intended to injure competitors. The legislation would make any below-cost sale "prima facie" evidence of an intent to injure competitors.

The theory of predatory pricing implies that a deep-pocketed retailer could price its products below actual costs for a prolonged period in hopes of driving its smaller, less well-financed competitors out of the market. In practice, however, this theory doesn't hold up. As the U.S. Supreme Court put it, "predatory pricing schemes are rarely tried, and are even more rarely successful."

In urging the Texas Senate to reject the pending bill, FTC officials at the commission's Dallas regional office argued that the likely effect of the legislation would be to "chill price competition that would benefit consumers."

Federal antitrusters warned that the bill's real aim is to "prevent the use of 'loss leaders' " which they described as a legitimate "competitive device commonly used by retailers to encourage consumers to shop."

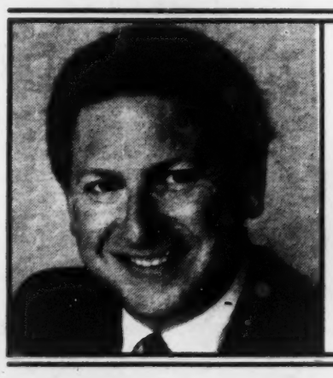
In addition to saving consumers money, "loss leaders" are often used "as a competitive device to facilitate the entry of new competitors into a market or the introduction of new products," FTC officials said.

Make no mistake: neither the FTC nor the U.S. Supreme Court can be described as sympathetic to the competitive pressures facing discount retailers. Their reluctance to end resale price maintenance schemes is an indication of their true position.

But by taking sides against restrictions on below-cost sales, the FTC and Supreme Court have acknowledged that there are benefits to price competition in the marketplace.

IMRA PRESIDENT'S CORNER

Thanks to Everyone, See You in San Diego



RICHARD HERSH

It seems hard to believe that the 1989 IMRA annual convention is over and we begin again on the 1990 convention.

In many ways, the Orlando convention was a turning point for the association; not only did we once again have record attendance, but in a subtle way, we moved the convention back to the early days of the then-MRI. The inclusion of the round table discussions for merchandise managers and the continuing success of our breakfast for retailers and non-exhibiting associates added important elements to the convention.

It is the goal of IMRA to serve all of our members in an equal way, both retail and associate. The changes in this year's convention and those to follow are continuing attempts to make IMRA an association where no one member or group of members is more important or catered to than another.

We have been fortunate over the years to be able to represent both large and small members and to have those members serve on the association's board of directors. Not only does this allow for a more balanced organization, it also affords all members opportunities to learn from each other.

Next year is only 10 months away, and I would be remiss if I did not thank three key persons for their dedicated work and concern for the convention in Orlando—Steve Goldberger, who has served with incredible distinction as chairman the past two years, Bill Atkinson, the new chairman, and Dick Price, chairman of the Associate Member Committee. While there are dozens of persons who could be singled out for recognition, it is perhaps better to list only these three and thank everyone else with great admiration for their work, support and assistance.

As I deal with other organizations, I see the kind of relationships that the retailer and the suppliers have in this industry. We should feel proud of the partnership which has developed over the years . . . it is indeed unique.

To all of you who were in attendance in Orlando, all of us at IMRA want to thank you for your support and to those of you were unable to attend . . . we look forward to seeing you next year in San Diego.

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DSN INSIGHTS

CE SPECIALTY CHAINS

Chains Hold Up as Market Softens

Nationwide DSN Report

The big got bigger, but some of the smaller CE chains got more profitable last year. The near-universal slowdown in the CE market was clearly in evidence in lackluster sales gains, slowed expansion rates, deteriorating profits and, in a handful of cases, near bankruptcy. But, there was good news for CE retailers as well.

Circuit City, CE's Wal-Mart, continued its dominant ways, racking up a 27 percent sales gain, to $1.72 billion, and entered a new major market, Miami. The 123-store chain continued its winning ways, setting records early in 1989, including a 26 percent sales gain in April. Early in May, Standard & Poor added the chain to its stock index of most-watched stocks.

Most chains, including Highland Superstores, Silo, Best Buy, Newmark & Lewis, Tops Appliances and Fretter, all had, to some extent, healthy years. Best Buy, primarily because of the expense of closing down its video rental departments and expanding its audio software departments, suffered through a poor fourth quarter, but still closed out the year with record sales. Profits declined to a little over $2 million, but Best Buy spokesman Tom Nelson noted that he expects a rebound this year as the company expands its CD and prerecorded cassette selection.

Nelson said that phasing out video rental departments has freed sales footage for more profitable products, like home office products. Durables, which dipped in 1988, should come back, at least slightly, he added.

Newmark & Lewis, which last year showed a net loss of $2.5 million, returned to profitability this year, with profits of $4.6 million on slightly lower sales of $242.4 million.

The company has been competing in one of the most overstored and bitterly competitive markets in the country, metro New York, and its turnaround may be based, in part, on the declining fortunes of perennial market leader Crazy Eddie. However, Newmark & Lewis president Richard Lewis noted that the company has had great success with its home office and cellular telephone categories.

Luskins, the Baltimore-based retailer, also returned to the land of profitability, but just barely. After posting a $3.1 million loss a year ago, the company showed a small profit this year, on sales of $122.9 million, down from $127 million last year. The company appears to be concentrating on consolidating its operations, limiting expansion to one or two new stores this year, after opening only one last year.

Highland Superstores, the nation's second-largest CE chain, closed in on $1 billion in sales, but saw profits cut nearly in half, from $13.9 million last year to $7.2 million. Comparable store sales dropped 1 percent this year, a hallmark of the increasingly competitive marketplace. Last year, comp store sales plummeted by 10 percent. Gross profit was up versus the previous year, but the company stated that it was "still low when compared to historical levels."

Fretter, the Livonia, Mich.-based retailer, reported slightly lower sales, but profits held steady at $1.3 million, down slightly from $1.4 million a year ago. According to Douglas Hickman, vice president, marketing and advertising, 1988 was "a year of consolidation" during which the company streamlined its merchandise and shifted operations toward stronger product areas, like home office, component audio, car stereo and cellular telephones.

"We're very happy with our store size [about 12,000 square feet on average, depending on market]," Hickman said, "and we think the format is a major strength in competing." He expected increased sales in home office, home security, audio components, air conditioners and cellular phones, but noted that real innovations, like HDTV, are too far away. Fretter plans to work on mature product areas, like VCRs and microwave ovens, to "make the [declining demand] curve a little less steep," Hickman said.

Silo, which last year blitzed Chicago and St. Louis, has been quiet of late. In fiscal 1989, which ends in June, the company is expected to top the $800 million mark, and industry sources expect Silo's calendar year to approach $1 billion, as the earnings from the 40 or so stores the chain opened in calendar 1988 start kicking in.

Silo's Expansion to Slow

Silo will continue to expand this year, but at a much slower rate than was the case in the past two years. The chain expects to open fewer than 20 stores in 1989.

Tops Appliances, the New York metro superstore operation, opened its first new store in years in the first quarter of 1989, and plans to add another within the year. Since its stores have the industry's highest per-square-foot sales, expect Tops to become a major force in the electronics industry, with only four locations.

American TV, Madison, Wis., should see a 20 percent sales gain in fiscal 1989, which ends in June. Revenues are expected to approach $240 million, up from $199 million a year ago. The company will not add any new stores this

(Continued on page 69)

Top Consumer Electronics Specialty Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	No. of Stores Jan. 1989	No. of Stores Jan. 1988	No. of Stores Jan. 1990 proj.
Circuit City, Richmond, Va.	$1,721.0	$1,350.0	27.0%	125	105	135
Highland Superstores, Plymouth, Mich.	910.7	753.4	21.0	84	72	97
Silo, Philadelphia, Pa.	815.0*	650.0	25.0	210	150	227
Best Buy, Minneapolis, Minn.	507.0	439.0	15.0	41	40	51
Tops, Secaucus, N.J.	320.0*	280.0	14.0*	2	2	4
Crazy Eddie, Edison, N.J.	254.0*	317.0*	(20.0)	43	42	25
The Federated Group,[1] Sunnyvale, Calif.	253.0	437.0*	(42.0)	61	65	0
The Wiz, Brooklyn, N.Y.	250.0*	218.0*	15.0	26	24	28*
Newmark and Lewis, Hicksville, N.Y.	238.1	242.4	(1.7)	52	46	57
American TV, Madison, Wis.	235.0*	198.7	18.3	7	6	7
Fretter, Livonia, Mich.	231.2	250.3	(7.6)	54	47	60
Audio Video Affiliates, Dayton, Ohio	195.7	211.7	(7.5)	125	114	130
Wall to Wall Sound & Video, Cinnaminson, N.J.	152.1	132.4	14.9	107	107	107*
The Good Guys, San Francisco, Calif.	149.4	120.0	24.5	18	15	22
Trader Horn, Hasbrouck Heights, N.J.	140.0*	140.0*	0.0	15	15	16
Luskins, Baltimore, Md.	122.9	127.0	(3.2)	45	44	46
Fred Schmid, Denver, Colo.	100.0*	93.4	7.5	19	17	16
Brick Church, Orange, N.J.	100.0	100.0	0.0	40	22	40

[1]*A discontinued operation of Atari Corp.*

**DSN estimates*

All figures for last completed fiscal year ended in first quarter of 1989, except American TV (June 30, 1988), The Good Guys (Sept. 30, 1988) and Tops (calendar year 1988)

Source: DSN research; Company reports

Prospects for the rest of the year are not bright, with only home office likely to continue growing. Most CE retailers are hoping that a knight in shining armor in the form of a hot new product will appear at CES to bail them out of what could be a disastrous second half.

IN THIS SECTION

Denver's Fred Schmid Joins Superstore Bandwagon 69

Top CE Retailers Hang Tough Despite Deteriorating Market

(Continued from page 67)

year, after opening one last year. Stores range in size from 36,000 square feet to over 100,000 square feet.

The Wiz, another major New York metro retailer, may end up the primary beneficiary of the declining sales at Crazy Eddie. With locations roughly equivalent to the erstwhile market giant, The Wiz stands to capture much of New York's walk-in traffic. Last year, the company's sales increased, but the company would not say by how much. A good guess might be 15 percent to 20 percent.

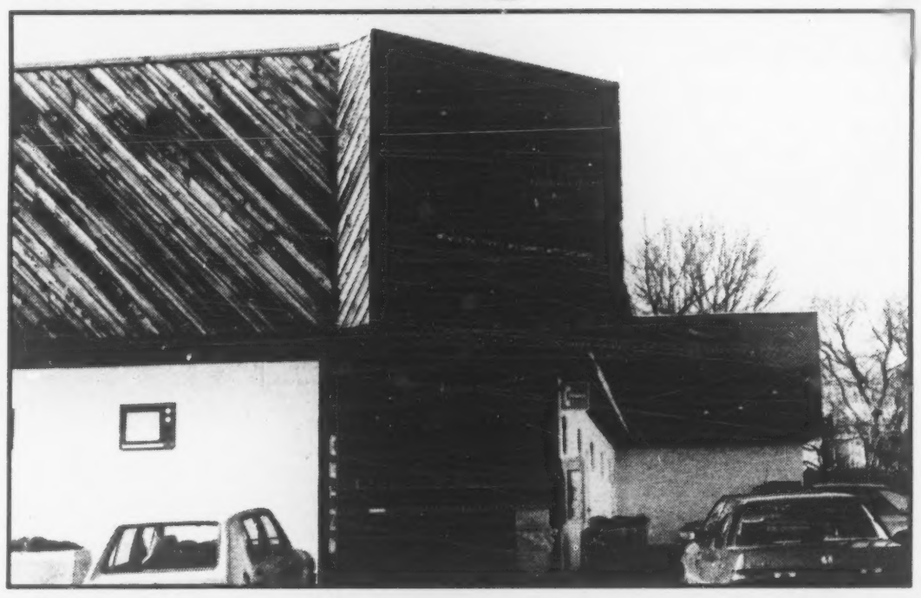
Crazy Eddie appears to be in limbo. After announcing a stronger than expected Christmas this year, the retailer reported that sales stopped dead on Jan. 1 and ended up closing 17 of its 43 stores early in 1989.-

The 17 stores were termed "least profitable," and financial results were unavailable at presstime, but management has evidently taken a "leaner and meaner" approach. Only time will tell if this strategy will save the beleaguered chain.

The Good Guys, another West Coast-based chain, reported a strong 25 percent sales increase over last year, and earned $5.45 million, up from $4.92 million a year ago.

In all, retailers are facing a tough, competitive market, and very little, apart from home office and, to a lesser extent, audio components, has appeared on the market to pick up the sales lost with the maturing of the VCR and microwave categories. Nevertheless, CE retailers, on the whole, seem to have held their own through a rocky 1988.

Prospects for the rest of the year are not bright, with only home office likely to continue growing. Most retailers are hoping that a knight in shining armor will appear at CES to bail them out of what could be a disastrous second half, and products as disparate as still video cameras, 16-bit video games, recordable CD and new, low-cost fax machines seem to be the brightest hopes available. Most national retailers fear that those products will not be enough.



Circuit City continues to perform well despite a tightening market. The Richmond, Va.-based chain posted a 26 percent sales gain this April and recently opened its first Miami unit. (DSN photo)

Fred Schmid Launches Aggressive Superstore Construction Program

DENVER — Aiming to defend itself against possible incursions into its market by national CE chains like Circuit City, Fred Schmid Television and Appliances, a $100 million chain based here, has undertaken an aggressive superstore construction program.

One problem though. "While we were trying to fight off outsiders, we found out we had a Trojan Horse in our own back yard," said Schmid chairman Don Andresen. That horse was Sears and its Brand Central power format, which will probably hit Denver within the year. In a market plagued by recession and already inhabited by Silo, Ward's Electric Avenue and Tandy's McDuff's, no one is looking forward to the coming of Brand Central.

Nevertheless, Andresen said, some good could come of the new competition. "When they get here and start promoting, it could raise perception of CE and appliances," he said. Schmid plans to get a share of any resulting market increase.

In the past year, the chain increased sales by 14 percent, and Andresen predicts 20 percent to 25 percent growth in fiscal 1990, once the chain's three 25,000-square-foot superstores open this fall. Also, Schmid will go into several new businesses, including car audio sales and installation, home office, home security, small appliances and cellular telephones.

The company experimented with home office at Christmas, and results were good enough that Andresen plans to roll out a department in all 19 stores. Cellular telephones have performed well in a very brief time in the stores.

Car audio may have a significant impact on Schmid's competitive situation. At risk of alienating its older, more established customer base, most of whom have grown up with the 77-year-old chain, Schmid has decided to try to appeal to younger consumers. "Teenagers spend a lot of money on

(Continued on page 70)

Denver's Fred Schmid Television and Appliances hopes that a new superstore format, with up to 15,000 square feet of selling space, will strengthen its competitive position against CE powers like Electric Avenue and, soon, Sears' new Brand Central power format.

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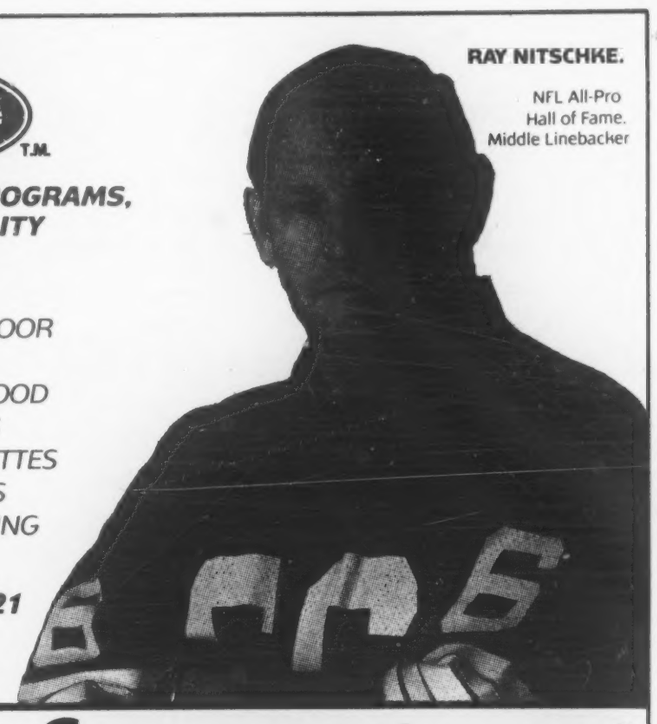

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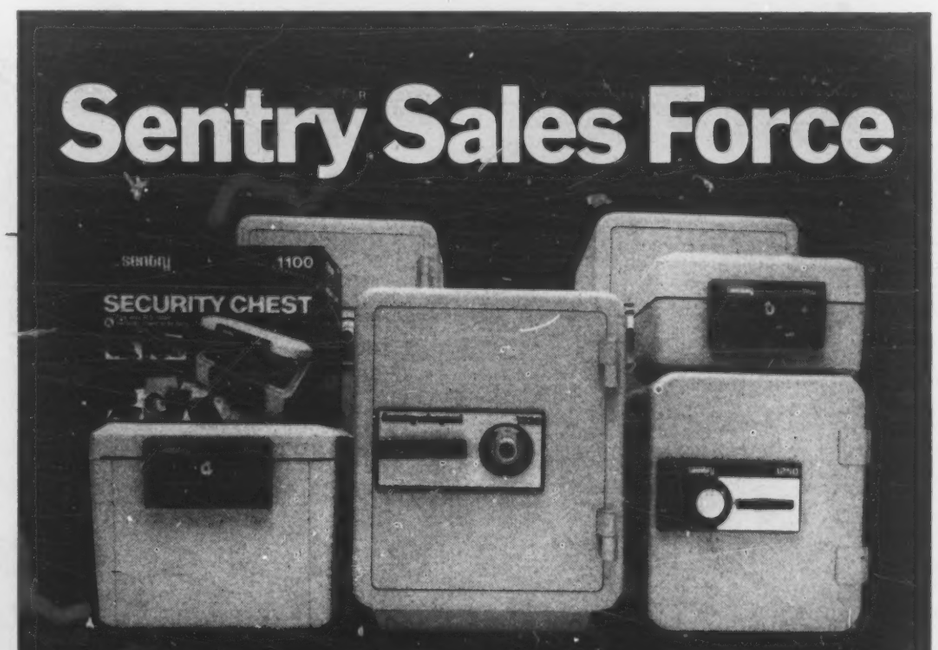

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Wal-Mart Surges While K mart Slumps in 1st Qtr.

(Continued from page 2)
Edward A. Brennan, chairman and chief executive, said in announcing the results. "The results confirmed our belief that everyday low pricing is an idea whose time has come."

JCPenney reported that sales rose 5.2 percent, although pretax profits slipped 5.5 percent because of write-offs for its discontinued Telaction teleshopping service. Sales totaled $3.34 billion, compared to $3.17 billion for the same period in 1988.

Operating profits increased to $212 million from $198 million. But a $32 million write-off for discontinuing Telaction, plus provisions for income tax, cut net income by 2.2 percent to $128 million from $131 million a year ago.

Even though it scrapped Telaction, Penney continues its catalog TV shopping service, renamed the JCPenney Television Shopping Channel from Shop Television Network.

Sales for Montgomery Ward, third of the mass merchandisers, totaled $1.02 billion, an 8.2 percent increase from $939.4 million from February through April of 1988. Sales of its Electric Avenue specialty division were the strongest in April, said chairman and ceo Bernard Brennan, followed by Home Ideas and apparel. As a private company, Montgomery Ward doesn't release profit results.

Dayton Hudson reported that sales of its Target discount store division logged an 11 percent gain to $1.49 billion from $1.35 billion. Dayton Hudson declined to release operating income on a quarterly basis but did acknowledge that profits had declined because of the expenses of acquiring 30 stores from Gold Circle and converting them to Targets in the Southeast.

Hills also blamed the conversion costs of renovating and reopening 33 Gold Circle stores for its operating loss of $5.5 million for the quarter, compared to a $4.2 million operating profit a year earlier. Sales for Hills, including those of the former Gold Circle units, rose 25 percent to $397.9 million from $318.5 million a year earlier.

Along with Wal-Mart, Toys "R" Us enjoyed the distinction of seeing profits rise faster than sales in its first period.

Operating profits rose 20.6 percent to $43.4 million from $36 million in the first quarter of 1988. Sales increased 18.6 percent to $767.7 million from $47.2 million.

As the world's largest toy retailer, TRU operates 358 toy stores in the United States, 52 international toy stores and 124 Kids "R" Us children's apparel stores.

Results for Ames and its Zayre division had not been released at presstime.

First Quarter Results of Top Discounters, Mass Merchandisers

Chain	Sales (In Millions) 1989	Sales (In Millions) 1988	Percent Change	Operating Income (In Millions) 1989	Operating Income (In Millions) 1988	Percent Change
Sears	$6,755	$6,037	11.9%	$ 33.8	$ 18.7	80.7%
K mart	6,068	5,841	3.9	147.0	190.2	(22.7)
Wal-Mart	5,373	4,282	25.5	314.7	243.9	29
JCPenney	3,341	3,174	5.2	212.0	198.0	7
Target	1,489	1,346	11.0	NA	NA	—
Montgomery Ward	1,017	939	8.2	NA	NA	—
Toys "R" Us	768	647	18.6	43.4	36.0	20.6
Service Merchandise	565	527	7.3	(4.4)*	(12.9)*	65.8
TJX Cos.	466	397	17.6	18.5*	18.0*	2.8
Hills	398	318	25.0	(5.5)	4.2	(232)
Caldor	318	284	12.0	NA	NA	—
Venture	268	257	4.1	NA	NA	—

*—net earnings

NA—not available

Source: DSN research; company reports

Bigg's Moves into Off-Price Malls

(Continued from page 1)
nati, is owned by Hyper Shoppes, a venture headed by Euromarché, a French hypermarket chain, with participation by other French firms and Super Valu Stores, parent of ShopKo and Twin Value.

Construction is almost finished on the 250,000-square-foot Bigg's to open this fall as one of the anchors for the $100 million, 700,000-square-foot Thornton Town Center in the Denver suburb of Thornton.

The L.J. Hooker Co., the Atlanta-based shopping center developer arm of the $1.5 billion Hooker Corp. Ltd. of Australia, is building the multi-use Thornton mall, along with the two Louisville centers that will also house Bigg's hypermarkets. The two Louisville centers are in the planning stage, a Hooker representative said.

The Thornton mall will include three other as yet unnamed department stores, a manufacturers' outlet area with 60 stores, and such other facilities as a movie theatre and an entertainment center with a miniature golf course, carousel and midway rides.

Slightly smaller 200,000-square-foot Bigg's units are due to go into the two proposed Louisville centers. The 450,000-square-foot Middletown Station Center is scheduled to open next year, while the 500,000-square-foot Crown Pointe Plaza is planned for 1991.

Last year Bigg's beefed-up its presence in Cincinnati, which dates back to 1984, by opening a 250,000-square-foot hypermarket in Hooker's $200 million, 1.45 million-square-foot Forest Fair Mall and a 65,000-square-foot warehouse food store. Other anchors in the Forest Fair Mall are three traditional department store chains, B. Altman and Bonwitt Teller, both owned by Hooker, and Parisian, in which the developer holds a substantial interest.

The opening of Bigg's in Denver, along with the opening of the Thornton Town Center, heats up the retail battle in the Mile High city. There are already over two dozen discount stores—K marts, Wal-Marts and Targets—in the five-county, 1.8 million population Denver market, along with five Service Merchandises, three PACEs, two Buyers Clubs and a number of specialty discounters like Marshalls, Silo and BizMart.

The hypermarket's immediate full-line discounter competition in Thornton includes a Wal-Mart across the street from the Thornton Town Center and a Target unit a few blocks away.

Thornton Town Center is one of two off-price malls set for the immediate Denver area. The other is an as yet unnamed factory outlet mall that is planned for the Brookside Business Center in Castle Rock, Colo., about 30 miles south of Thornton. Fall 1990 is the projected opening date for that center.

Smaller outlet malls are also set for communities just outside the greater Denver market area.The Silverthorne Factory Center opened with about two dozen stores three months ago in Silverthorne, Colo., 65 miles west of Denver. The Outlet Shoppes mall, meanwhile, is scheduled to open later this year with about two dozen stores in Longmont, Colo., which is 30 miles north of Thornton.

What Bigg's and the off-price malls are eyeing isn't just the shoppers who live in the greater Denver area. Their marketing targets include the approximately 8.1 million tourists that visit the area every year, as well as shoppers from as far away as Cheyenne, Wyo., 100 miles north on Interstate 25, which runs right past the Thornton Town Center.

Target Adds Headquarters Art Gallery

MINNEAPOLIS — Advertising employees at Target Stores are expected to become more creative now that a new art gallery has been installed in their department at headquarters.

"Art in the workplace," is the contribution of students from the Minneapolis College of Art and Design (MCAD). Right now the "gallery" consists of a wide assortment of paintings and some three-dimensional art forms.

The goal of the joint venture between Target and MCAD is to both brighten the look of the advertising department and to give students the opportunity to expose their work to the public. In addition, it is hoped that the enhanced decor will promote creativity among Target employees.

John Pellegrene, senior vice president of marketing at Target, said in a published statement that in order for Target to be the best discount retailer, "employees need to feel stimulated, energized . . . This is especially important to people in the advertising field, who are constantly challenged to create new, fresh work."

While the artwork does not currently address a given subject, Teresa Peterson, manager of special events and publicity, said it's likely that future displays will represent a given topic or theme.

"The first project will probably be the Trans-Antartica Expedition. We are major sponsors of this event since the only American that is part of the six-member dog sled team is from Minneapolis," Peterson said.

Target is making donations to the Minneapolis art school in exchange for the artwork. When students submit work addressing a subject selected by Target, their work will be judged and prizes awarded, Peterson said.

"When John Pellegrene was at Dayton's there was a similar gallery in the executive area," Peterson said, "and it really brightens the place up."

Like so many offices, headquarters at Target is a series of carpeted cubes. In Target's case, it is in a racetrack format, Peterson noted. The maze of offices had lacked identity before the art gallery was developed.

Club Wholesale Gears Up

(Continued from page 3)
other similar bakery items.

The store also includes three membership services that will be offered at the other four units. They are United Parcel Service shipping, faxing and delivery within a 25-mile radius, free for orders of at least $500 and for a $15 charge for lesser purchases.

Club Wholesale also instituted a convenience card that can be used to charge goods. It's backed by Rocky Mountain Bank Card, has no annual fee and a 19.5 percent fixed interest rate.

A representative said the wholesale club doesn't accept other credit cards. The convenience card gives business members the option of charging purchases and then deciding if they want to pay for the merchandise at the end of the month without any interest or through time payment at a low interest rate.

The new memberships include two for group members and two for business members. The Green group membership is offered free to employed or retired people living in one of the store markets for at least six months. They pay 5 percent above the wholesale price. The Silver group membership costs $30 but enables cardholders to buy at the wholesale price.

The Gold card is the basic business membership that costs $26.25 plus a yearly $10.50 fee and is available only to business owners, who pay the wholesale price. Company Plus, which has the same cost structure, allows all employees of a firm to buy at the wholesale price.

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Home Office, Big Video Excite Discounters at CES

By Peter Hisey

CHICAGO — "It looks like the tire-kickers stayed home," one supplier said on the third day of the summer Consumer Electronics Show. He was referring to the drop in attendance, down some 20 percent to 30 percent from a year ago. Evidently, many mom-and-pop retailers, caught between a flat market and rapid chain expansion, decided to forgo the show. However, most suppliers noted that their important accounts—mass merchants, discounters and high volume specialists—showed up.

Despite the lighter attendance, suppliers and buyers were almost universally happy with the show. Business, at all levels, seemed to be up, and buyers said that the selection of products, price points and added features was vastly improved over recent years.

That made up, at least in the short term, for a lack of innovation in 1989. Most manufacturers are planning to introduce new products in January, and limited themselves to improved or added-feature products for the summer. Most major new products, like large-screen LCD projection televisions, had been previewed over the last two shows, but still created a stir at their first open showings.

Nintendo premiered Game Boy, its hand-held video game system, but might have been upstaged by a color version from Atari and Sega, which showed its new Genesis 16-bit technology with nearly arcade-level graphics and sound effects. Nintendo already has such a system in Japan, but a spokesman said that there are no immediate plans to introduce the technology to the United States. "We can't even supply all the demand for our 8-bit products," he said, "so moving to 16-bit would be premature."

(Continued on page 4)

Wal-Mart Unveils Plans To 'Do More With Less'

Lower Costs Expected from Investment in Technology

By Jacalyn Carfagno
Special to DSN

FAYETTEVILLE, Ark.— Wal-Mart "has to keep changing" to maintain the growth that has pushed it into 25 states and to over $20 billion in sales annually, said Sam Walton, the company's founder and chairman, who, as always, dominated the company's annual shareholders meeting.

Critical to change is Wal-Mart's extensive investment in technology.

"We're going to do more with less," chief executive officer David Glass told the crowd, and new technology will help do it. To that end, Glass said, Wal-Mart has spent "close to $500 million" on technological installations over the last five years.

Besides outlining its plans to reduce operating costs via massive outlays on technology, the nation's third largest retailer took a few shots at its competitors while embracing suppliers and charting a course for expansion.

As in past years, chairman Sam Walton dominated the stage at Wal-Mart's annual pep rally/shareholders meeting.

The annual extravaganza, that is part revival, part pep rally and a small part company business, drew a crowd estimated at 9,000 to the Univer-

(Continued on page 25)

Sears Piles On the Power Departments

Upscale Men's Apparel Format Accents Brands

By Kenneth M. Chanko

AURORA, Ill. — Taking another big step toward bringing the chain up to competitive snuff in apparel, Sears unveiled its new, enlarged and upscaled men's department earlier this month at its Fox Valley Center store in this Chicago suburb.

The product mix in the 16,500-square-foot "The Men's Store at Sears" department consists of up to 60 percent national brands, which is a major increase for the mass merchandiser.

The nation's No. 1 retailer expects to have as many as 10 of these new men's departments in Sears stores before the end of the year, and wants to have 400 by the end of 1990.

Speaking at an informal onsite press conference before the store tour, Michael Bozic, chairman and ceo of Sears Merchandise Group, said, "This concept is key to our superstore strategy. In Brand Central, Kids & More and now The Men's Store at Sears, we're combining our traditional strengths with the appeal of national brands, targeted assortments and contemporary presentations."

Bozic added that the chain's first Kids & More department "has done extremely well" since its March debut in its Merrillville, Ind., store.

Depending on the needs of

(Continued on page 25)

Fashion-forward lifestyle graphics, spot-lighting and varied display techniques play a prominent role in 'The Men's Store at Sears,' unveiled near Chicago earlier this month. (DSN photo)

Brand Central Blitz This Month

CHICAGO — On the heels of the debut of its new men's apparel superstore here, Sears said it will open 164 Brand Central home appliance/electronics superstores-within-stores late this month.

That will bring to nearly 300 the number of Brand Central superstores operating in Sears stores, 277 of which have been opened since March, said Marvin M. Stern, vp, home appliances and electronics for Sears Merchandise Group.

The openings represent "a great opportunity to strengthen Sears' position in home appliances and electronics," said Stern. With more than 70 national brands, in addition to Sears' Kenmore appliances, Brand Central is designed to appeal to a broader range of consumers by providing more choices to more people, added Stern.

Jamesway Sets Two Specialty Home Stores

SECAUCUS, N.J. — Jamesway will venture into specialty retailing later this year when the full-liner opens two 45,000-square-foot home stores.

The stores will offer merchandise for the bedroom, bathroom and kitchen, chairman Herbert Fisher said during Jamesway's annual meeting, according to an article in *The Bergen Record*, a local newspaper.

The specialty stores will generate $200 in sales per square foot when mature, Fisher estimated. Proposed store sites are in northern New Jersey and upstate New York, he added.

Sales of goods related to bedroom, bathroom and kitchen have been

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MARKETWATCH

K mart's Mielke New Builders Square CEO

SAN ANTONIO, Texas — K mart has taken complete control of Builders Square, its home center warehouse chain, following the resignation last month of chairman and chief executive officer Frank Denny. Jud Walford and Frank Powers, who co-founded the chain with Denny, left in April. K mart promoted Glen Mielke, a 31-year K mart veteran, to chief executive officer to replace Denny. Mielke had been named president and chief operating officer of the 138-store Builders Square chain in January. He, in turn, brought in two other K mart veterans: Robert Berman, as vice president, operations, and Leo Corwin, as vice president, merchandising. Builders Square turned its first profit last year, estimated at $14 million, on sales of $1.7 billion. K mart bought Builders Square for $90 million in 1984 when it ran nine stores.

Sears Selects Direct Mail Provider

CHICAGO — Sears has selected Windsor, Conn.-based ADVO-System, the nation's largest direct mail operator, to provide combined mail service for the retailer's various business groups. Sears will produce the direct mail pieces for its retailing, insurance, brokerage and financial service divisions; ADVO-System will distribute the materials as part of its bundling of direct mail literature from different companies.

Service Completes Satellite Network

NASHVILLE, Tenn. — Service Merchandise has completed the initial deployment of a satellite communication network that provides up-to-the-minute information on sales, credit card authorization, price changes and inventory from the cataloger's over 300 showrooms to its headquarters here. The network, developed during the past three years, transmits the digital information via Hughes Network Systems' Personal Earth Station VSATs (very small aperture terminals) which connect the Ku-band hub at the cataloger's headquarters with small 1.8 meter remote satellite dishes at each showroom.

Price Club Home Stores to Premiere

SAN DIEGO — Price Co.'s new endeavor, Price Club Home and Office Furnishings, is set to premiere in late June with the opening of two Southern California locations. One site will be adjacent to the company's membership warehouse club in San Juan Capistrano, Calif., and the other will be housed in a portion of the company's former warehouse in Santee (a relatively new warehouse is located several blocks away). Price Co.'s new stores will run approximately 50,000 square feet in size and include both furnishings and accessories for the home and office.

Fred Meyer Wins IMRA Ad Award

PORTLAND, Ore. — Fred Meyer won the IMRA 1989 Advertising Retailer of the Year award for attaining record sales during a year when new competition entered its territory. The 112-store chain boosted sales to $2.1 billion in 1988 while facing both ShopKo and Target for the first time in much of its core Pacific Northwest market.

Utah Catalog Coordinator Signs 14th Chain

SALT LAKE CITY, Utah — Coordinator Associated Charter Catalogs has signed up Myers' Fine Jewelry & Gifts, a four-store chain based in Westminster, Md., that was previously with Paul Schultz Catalogs, as its 14th member. The group has also reelected Jay Siegel (U.S. Merchandise) as president and George Wilson Jr. (Wilbro) as vice president. It also elected Wesley Freedman (Wes Freedman) as treasurer and Milton Goldstein (Goldbro) as secretary.

Clubs Ranked in Top 50 Fastest Growing

NEW YORK — *Venture* magazine has included four retailers and two businesses that primarily supply membership warehouses among its list of the decade's 50 fastest growing entrepreneurial firms. The ranking, in the May 1989 issue, lists Costco Wholesale as No. 1, The Wholesale Club, No. 9, electronic retailer QVC, No. 35 and Office Depot as No. 43. Advanced Markets, which supplies membership warehouses with books, was listed as No. 38 while Jan Bell Marketing, which provides the clubs with jewelry, was ranked No. 46.

Toy Retailer Rises from Bankruptcy

ORLANDO, Fla. — Toy King, once operating more than 60 stores in factory outlet malls, emerged May 23 from Chapter 11 with 20 surviving stores. It had declared Chapter 11 last July. The company lost $1.3 million in 1987, the last year complete results are available, on sales of $13 million.

Floum to Succeed Stan Brenner At Helm of Fishers Big Wheel

Bob Floum, left, will succeed retiring Stan Brenner, as Big Wheel president and coo.

NEW CASTLE, Pa. — Bob Floum, a veteran retail executive whose previous employers include Kohl's, Target and Venture, will leave Rose's next month to become president and chief operating officer of Fishers Big Wheel.

Floum, who was senior vice president of merchandising for the Henderson, N.C.-based discounter for the past two years, will succeed Stan Brenner, who announced his retirement late last month. In what appears to be a major revamping of Fishers Big Wheel's upper management, the 92-store discounter based here also announced a series of promotions.

Doug McElwain has been promoted to vp/merchandise manager, housewares, electronics and photo. He was previously divisional merchandise manager for domestics and men's and boys' apparel. Rusty Graber, former director of real estate, was named divisional vp, real estate.

Tom Via, formerly dmm, children's apparel, was named divisional vp/merchandise manager, women's and children's apparel. Former director of merchandise control/systems development J. Richard Abraham is now divisional vp, merchandise control. Andy Hess, previously dmm, was named divisional vp, merchandise manager.

Former director of construction Barry Miller was named divisional vp, construction; Pat "Butch" Nicholson, dmm, hardware, paint, lawn and garden, sporting goods, pet supplies and automotives, was named divisional vp/merchandise manager; and Robert J. Kostelansky, formerly zone manager, was promoted to divisional vp/zone manager.

Crazy Eddie Challenged by Debtors

5 Suppliers Petition for Involuntary Liquidation of CE Chain

EDISON, N.J. — Crazy Eddie, already reeling from a 20 percent decline in sales and a $50 million operating loss in fiscal 1989, is now faced with a challenge from dissenting debtors, who want to close the struggling CE retailer down. The company said a minority of suppliers—Southwestern Bell, Phonemate, Code-A-Phone, Cobra Electronics and Northwestern Bell—are pressing for involuntary liquidation of the chain, citing $860,000 in unpaid bills.

Crazy Eddie president Peter Martosella said the five creditors' claims "constitute a small percentage of the company's unsecured vendor debt." Other suppliers, including the chain's five largest creditors, have agreed to a moratorium on repayments until Crazy Eddie can implement a repayment plan presented to an informal committee of creditors at the Consumer Electronics Show.

"We are determined to seek the prompt dismissal of the involuntary petition, and to continue the process we have begun of attempting to achieve an out-of-court restructuring . . . with the cooperation of all our creditor constituencies," Martosella said. "Our stores remain open and we continue to believe that at this juncture, bankruptcy proceedings are not in the best interest of the company, its creditors or stockholders."

Nichols Sells Wholesale Division

NEW YORK — In its second move within a month to improve liquidity, S.E. Nichols sold its Schreiber wholesale division to management for $20 million.

Nichols added the proceeds, $19 million in cash and a $1 million note, to corporate coffers, said James Herlihy, senior vice president, finance, and will decide later how to use the money.

Sale of the wholesale division last month came on the heels of a decision to close eight stores, including all five remaining units in North Carolina. That move will raise about $8 million more in cash, Herlihy said.

Nichols said it also may close three more stores, reducing store count to 30 from 41 at the beginning of the year. Nichols lost $3.4 million in the fiscal year ended Jan. 28, 1989, after a prior year loss of $1.9 million. Consolidated sales fell to $326.4 million from $340.2 million.

Wholesale revenues of Schreiber rose, however, to $48.7 million in 1988 from $43.7 million in 1987, Herlihy said. Operating profit for Schreiber totaled $3.4 million, compared to $3.3 million a year earlier.

Even though Schreiber was profitable, financing costs for carrying inventory were substantial, Herlihy said. The sale "frees working capital," he said.

Nichols' retrenchment is intended to shorten lines of supply and supervision. It leaves the chain concentrated in New York (13 units) and Pennsylvania (nine units). It also intends to continue operating five stores in Virginia, two in Maryland and one in Delaware. The three units it is considering selling are single units in Ohio, New Jersey and West Virginia.

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EDITORIAL

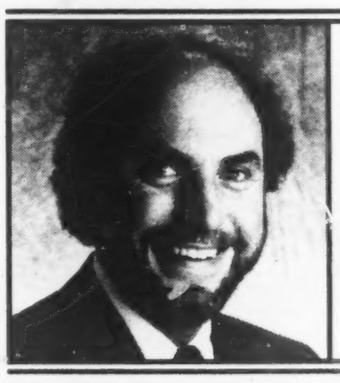
There's a Method to McCrory's Madness

There were about 2,400 people standing in the sweltering 90-degree heat on the grass of the fairgrounds in York, Pa. The first hour of the "McCrory Caravan," a two-week international trip honoring the variety store chain's associates for achieving their 1988 goals, had begun.

Earlier that day, I met with Phil Lux, chairman and ceo, and Bob Spencer, president of McCrory's, at their headquarters about five miles from the fairgrounds in York. We briefly discussed the chain's current business. But Phil and Bob were obviously and understandably preoccupied with the gala banquet and ceremony a few hours away.

"You're simply not going to believe your eyes tonight," Phil said.

"Probably not, I responded, especially if it rivals last year's get-together in Las Vegas, [during which McCrory's gave away money, cars and other gifts worth millions]."



TONY LISANTI
Editor

And sure enough, with beads of sweat pouring down their faces, hundreds of happy, overdressed associates were laughing and applauding in disbelief.

"Look back there by the building," said the person standing next to me. "I don't believe it."

What they didn't believe was a biblical ceremony in which company executives dressed as slaves, led the so-called kings—two top regional managers atop white horses—through the crowd. When they reached the front, Meshulam Riklis, chairman of the board of McCrory's parent, Rapid-American Corp., presented both "kings"—Jim Strawn and Bob Tallman—with checks for $1 million each.

Following the ceremony, McCrory's 2,400 associates enjoyed dinner, fireworks and a concert featuring Tony Orlando & Dawn. The next day, the "McCrory Superstars" toured York, and then embarked on their tour of Athens, Tel Aviv and Cairo.

According to Riklis, affectionately called "Rick," the company payed the expenses for the entire trip at a total cost of $11 million.

So, you might say, "big deal!" Or, "what's the point?"

At last year's meeting, Lux told his associates, "The battle cry is 'maximize profits.'"

Call it excessive, ridiculous or fabulous, the incentive program worked. The goals set for 1988 were achieved. The company posted operating income of $10 million for the year ending Jan. 31, 1989 compared to a loss of $73 million the year before.

Few, if any, retailers have such an elaborate incentive program. But it's not the scope of the incentives that is important. What's important is the enthusiasm, teamwork, and pride that each employee exudes, and the fact that they contributed positively to the company and enjoyed doing it.

Said Lux, "If you're not making every employee in your store a part of the pride of being part of this exciting company, then you're not with it. So, get with it!" And they did.

SPARC '89

Newell Captures '89 Vendor of the Year Award

It's interesting for me to see how previous Vendor of the Year recipients continue to innovate and work at better serving the industry.

In an effort to more efficiently serve their No. 1 corporate customer, Procter & Gamble (1987 Vendor of the Year) has assigned a "team" to work with a "team" from Wal-Mart to build their mutual business. The end result is a higher quality partnership that will result in more sales and profits for both Wal-Mart and Procter & Gamble.

When IMRA was considering panelists for a convention seminar on current retailer/vendor issues, one of the first people selected was 1988 Vendor of the Year recipient Wolfgang Schmitt of Rubbermaid.

JOHN FAILLA
Assoc. Pub.

According to Wolf, it is partnerships that develop significant merchandising programs to more effectively sell entire categories of merchandise rather than items that will contribute to profitable growth for both parties in the 1990s.

Developing merchandising programs that improve the productivity of entire categories is a trademark of the 1989 Vendor of the Year award winner—the Newell Group.

During the IMRA convention when I was discussing Newell with Darol Beecher, gmm, hard lines of Prange Way, he referenced their ability to "Newellize" a product category. That comment reminded me of one of my first exposures to Newell. It was at the IMRA convention in Dallas where Newell's executive vp of marketing, Bob Gilbert, was giving a presentation on the success of a new merchandising system developed by EZ Paintr.

For retailers this new system meant improved turns, profit dollars and GMROI. The category had been "Newellized."

Newell vice chairman and ceo Dan Ferguson has fostered a culture within the Newell Group that promotes innovation and healthy competition between Newell divisions. After having attended a meeting of Newell division presidents several years ago I was fascinated at how these executives were competing as much among themselves to attain challenging Newell corporate standards as they were against their direct industry competitors. It is Dan Ferguson's belief that "the Newell Group is as strong as its weakest link" which keeps all Newell divisions focused on delivering superior customer service.

Congratulations to Dan Ferguson and all of the people who are part of the Newell Group on their selection as the 1989 Vendor of the Year.

WASHINGTON REPORT

Should Bush Compromise on Minimum Wage?

Defying President Bush's call for a minimum wage no higher than $4.25 per hour, Congress passed a bill that establishes a $4.55 ceiling. And, for his part, the President has declared that legislation dead on arrival.

Case closed. Right?

Don't count on it. The battle over the minimum wage is far from finished. The next move is up to Congress, where Sen. Edward Kennedy is already hammering out a new plan for boosting the nation's $3.35 hourly pay floor.

KEN RANKIN

What will the Democrats' new proposal look like? Probably not much different from the one that passed Congress earlier this year. That's because there isn't all that much substantive difference between the White House plan and the bill Congress passed.

However, Congress and the Bush administration remain at loggerheads over the "training wage" issue. The White House wants a subminimum wage for all new employees equal to 80 percent of the regular hourly rate (but not less than $3.35) for each worker's first six months on the job.

Top Democrats are pushing a very different sort of training wage. Their approach would allow employers to pay trainees 85 percent of the regular minimum wage for their first 60 days on the job—but only those who had never worked anywhere before would be paid the subminimum wage. Obviously, only a handful of new employees would qualify.

From the standpoint of discounters, if the administration agrees to a compromise at all on the minimum wage issue, it should bend on the wage ceiling aspect. Bending on the training wage provision would not be in the industry's interest.

Indeed, even if the White House agrees to the Democrats' $4.55 per hour plan, as long as the administration sticks firm to its training wage formula the cost of hiring new minimum wage workers won't increase significantly.

Under such a compromise, the subminimum would remain at $3.35 through 1990, then increase to $3.40 through October 1991, and finally stabilize at $3.64. That works out to a manageable 8 percent increase for all new hires.

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HARD LINES

AUTOMOTIVES / HEALTH & BEAUTY AIDS / HARDWARE / TOYS / STATIONERY / SPORTING GOODS / DIY

H&BA Notches 5% Sales Gain

By Charles C. Bowlus
Executive VP,
Boston Distributors

Health and beauty aids sales grew 5 percent to over $29 billion in 1988 with discount department stores capturing 18 percent of the market, according to independent industry surveys. Real growth slowed in 1988, largely due to a decrease in the number of new products.

The major players in H&BA, such as Procter & Gamble and Uni-Lever, found they could achieve market share goals more rapidly with less investment and risk by buying established brands instead of developing new ones.

Examples include P&G's purchase of Vicks, Norwich and the Vidal Sassoon and Pantene brands. Uni-Lever's acquisition of Chesebrough-Pond's established the company as a leader with the Vaseline, Q-Tips and Ponds brands augmenting the Aim, Close-up and Signal brands.

Another way manufacturers are skirting the high costs of new product launches are line extensions, new packaging or improved reformulations. These strategies not only strengthen the bottom line, but also preserve capital to protect against takeovers.

The sacrifice of these shortcuts is limited growth. The categories experiencing the strongest growth are those where major introductions have taken place.

New products certainly injected new life into the mouthwash category. The development of plaque control rinses will continue to drive sales through 1989. The leaders are Plax, the pioneer in the market, and Viadent. In our audit, Scope lost market share while Listerine, which boasts the ADA seal of approval as an effective agent against tartar and plaque buildup, improved its competitive position.

Another category experiencing real growth due to new product development was eye care products, now nearly a $1 billion business.

Chemicals, with a 33 percent sales increase in 1988, are the leading growth segment of eye care. Bausch & Lomb's Renu 20-ct., for instance, jumped all the way to seventh position; this was its first year on our listing. Ciba Vision's AO Sept brand is the top chemical product. Enzymatic cleaners, growing at a 15 percent rate, were led by Allergan's 24-ct.

While new product development stimulated eye care growth, it could also cause its decline. The complexity of soft lens care and the growth of accessory products have caused some soft lens consumers to stop wearing lenses.

The answer to this problem could be found in products like Bausch & Lomb's Renu Disinfectory Solution. Less than a year in distribution, this formula simplifies the soft lens regimen. Products such as Renu will bring soft lens wearers back into the market but its multipurpose nature will reduce sales of related items.

Unlike mouthwash and eye care, growth in the diet category has come more from Oprah Winfrey than from new product development. The

(Continued on page 18)

Mouthwashes

Ranking 1988	Ranking 1987	Item	Unit Movement	Avg $ Retail	Total Movement
1	1	Listerine Antiseptic 32-oz	187,807	$ 3.99	$749,350
2	2	Scope 24-oz	90,541	3.49	315,988
3	8	Plax Dental Rinse 16-oz	116,869	2.69	314,378
4	3	Scope 40-oz	49,596	5.39	267,322
5	—	Plax Dental Rinse Mint 16-oz	86,034	2.69	231,431
6	7	Scope Peppermint 40-oz	27,889	5.39	150,322
7	14	Scope Peppermint 24-oz	41,881	3.49	146,165
8	10	Listerine Antiseptic 48-oz	27,329	5.29	144,570
9	—	Plax Dental Rinse 8-oz	77,722	1.79	139,122
10	4	Listerine Antiseptic 24-oz	36,024	3.69	132,929
11	5	Listerine Antiseptic 18-oz	38,196	3.19	121,845
12	—	Plax Dental Rinse Mint 8-oz	52,161	1.79	93,368
13	11	Scope Family 18-oz	31,008	2.99	92,714
14	—	Cepacol 24-oz	24,289	3.69	89,626
15	12	Listerine Antiseptic 60-oz	52,884	1.69	89,374

Eye Care

1	1	Bausch & Lomb Sens Eyes 12-oz	269,064	$ 2.19	$589,250
2	2	Allergan Enzymatic 24-ct	42,367	7.99	338,512
3	3	AO Sept 8-oz	55,961	4.98	278,686
4	—	Lens Plus Saline 12-oz	52,029	4.83	251,300
5	8	Allergan Enzymatic 48-ct	18,949	12.97	245,769
6	—	AO Sept 12-oz	38,598	5.98	230,816
7	—	Bausch & Lomb Renu Enz 20-ct	38,194	5.98	228,400
8	5	Bausch & Lomb Sens Daily 10-oz	49,141	3.93	193,124
9	4	Allergan Hydrocare 8-oz	33,155	5.77	191,304
10	10	Boston Conditioner 4-oz	38,238	4.99	190,808
11	6	Allergan Enzymatic 12-ct	32,854	5.76	189,239
12	12	Lens Plus Saline Spray 8-oz	47,615	3.84	182,842
13	—	Bausch & Lomb Renu Disi 12-oz	31,602	5.39	170,335
14	—	AO Disc 12-oz	45,521	3.49	158,868
15	9	Bausch & Lomb Disinfect 12-oz	28,138	5.45	153,352

Source: Boston Distributors, Maple Heights, Ohio, for Jan. 1 to Dec. 31, 1988. Boston distributes products to 1,500 mass merchandisers from Maine to Georgia and westward to St. Louis. Average retail prices reflect typical price points for mass merchandisers.

Diet Products

Ranking 1988	Ranking 1987	Item	Unit Movement	Avg $ Retail	Total Movement
1	7	Slim Fast Chocolate 15-oz	28,455	$5.99	$170,445
2	1	Equal Packets 100-ct	31,017	4.49	139,266
3	—	Slim Fast Strawberry 15-oz	19,442	5.99	116,458
4	4	Sweet N Low Packets 100-ct	70,814	1.59	112,594
5	—	Slim Fast Chocolate Malt	18,105	5.99	108,449
6	9	Dexatrim Extra Strength 20-ct	20,761	4.99	103,597
7	12	Acutrim II Tabs 20-ct	19,865	4.99	99,126
8	3	Fiber Trim Fruitabs 18-ct	11,077	8.69	96,259
9	2	Equal Packets 200-ct	12,370	7.49	92,651
10	15	Dexatrim Extra Strength 40-ct	10,230	8.69	88,899
11	—	Dexatrim C Max Strength 20-ct	17,209	4.99	85,873
12	14	Acutrim Tablets 20-ct	17,041	4.99	85,035
13	9	Dexatrim Extra Strength 20-ct	16,177	4.99	80,723
14	—	Fiber Trim Orange 18-ct	8,717	8.69	75,751
15	—	Fiber Trim F/S 6's	25,776	2.93	75,524

Shampoos

1	1	Head & Shoulders 15-oz	113,986	$4.39	$500,399
2	2	Pert Plus 15-oz	78,012	3.84	299,566
3	6	Head & Shoulders 11-oz	49,433	3.98	196,743
4	12	Prell Norm/Oily 15-oz	52,977	3.57	189,128
5	7	Pert Plus Extra Body Fine 15-oz	47,042	3.84	180,641
6	14	Prell Norm/Dry 15-oz	43,056	3.5	153,710
7	9	Pert Plus Dry 11-oz	39,632	3.84	152,187
8	4	Head & Shoulders Dry 11-oz	37,390	3.98	148,812
9	3	White Rain Extra Body 16-oz	97,113	1.48	143,727
10	13	Head & Shoulders Dry 15-oz	31,803	4.39	139,615
11	8	Pert Plus Oily 15-oz	33,085	3.84	127,046
12	—	Salon Select Gent #3 15-oz	52,228	2.39	124,825
13	5	White Rain Regular 16-oz	74,214	1.48	109,837
14	—	Clean & Clear Extra Body 11-oz	34,126	2.95	100,672
15	—	Salon Select Regular #5 15-oz	39,774	2.39	95,060

Source: Boston Distributors, Maple Heights, Ohio, for Jan. 1 to Dec. 31, 1988. Boston distributes products to 1,500 mass merchandisers from Maine to Georgia and westward to St. Louis. Average retail prices reflect typical price points for mass merchandisers.

MARKETWATCH

OTASCO Folds

TULSA, Okla. — A 70-year-old home and auto chain has folded with the liquidation of OTASCO, founded as Oklahoma Tire & Auto. Following a year with sales of $275 million from 227 stores, OTASCO declared Chapter 11 bankruptcy last November and closed all 171 remaining stores because it was unable to finance Christmas inventories. The Finley Group took over the company as debtor in possession this spring and reopened 63 stores. Last month, it began liquidating OTASCO, citing unspecified internal problems, as well as oil and agricultural recessions in Texas, Oklahoma and other Midwestern states.

Oshman's Thrown For 1Q Loss

HOUSTON — Oshman's Sporting Goods reported a net loss of $1.7 million in its first quarter on sales of $60.4 million. That compares with a restated profit of $16.6 million in the same period in 1988 on sales of $56.2 million. Oshman's restated its 1988 figures to reflect a pretax gain of $24 million from the sale of Abercrombie & Fitch and an aftertax gain of $1.6 million for an accounting change.

Sales Show Pep

PHILADELPHIA — Pep Boys—Manny, Moe & Jack reported that operating profits soared 42.7 percent in its first quarter on a sales gain of 21.4 percent. Revenues totaled $178.3 million in the quarter ended April 29, 1989, compared to $146.9 million. Operating profits rose to $7.6 million from $5.3 million in the year-earlier period. Same store sales rose 6.6 percent. Pep Boys opened 14 new stores in the first period, including six in new markets: four in Oklahoma City and two in Charlotte, N.C.

New York Limits Emissions from Paint

NEW YORK — Following California's lead, New York will become the second state in the nation to limit the amount of air polluting vapors that paints legally may emit when its regulations go into effect July 1. New Jersey will come in with its own regulation next spring, further complicating the manufacture and marketing of paints that give off volatile organic compounds (VOC). The air pollution standards affect outdoor stains, sealers, wood preservatives and other paints that use volatile paint thinners and turpentine as a carrying agent, but not water-based latex paints.

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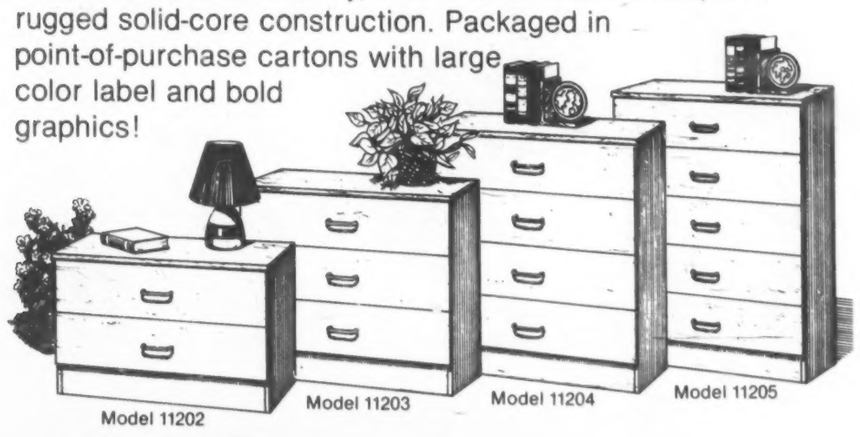

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NOTICE TO THE TRADE

TO THE RETAIL TRADE:

R. J. Reynolds Tobacco USA wishes to remind you of its display programs for all retailers selling cigarettes "over-the-counter."

R. J. Reynolds offers merchandising performance allowances to all competing retailers who sell our products. All such offers require display of cigarette brands designated by R. J. Reynolds and are categorized as follows:

- Carton and Package Merchandising programs.
- Permanent Counter and Floor Display programs for packages and cartons.
- Temporary Package and Carton display programs.

From time to time we also make available point-of-sale display materials and promotional offers for in-store use.

Payment is made on a monthly, bi-monthly, or quarterly basis, as designated in each program.

If you would like to receive further information on our programs, contact your R. J. Reynolds Representative, or send your name, address and telephone number to:

R. J. Reynolds Tobacco USA
Sales Department
401 N. Main Street
Winston-Salem, NC 27102

R. J. REYNOLDS TOBACCO USA

H&BA Category Posts 5% Gain

(Continued from page 17)

publicity surrounding Oprah's weight loss helped to hype sales in powders even though her success was due to the more dangerous liquid diet.

Slim Fast and Ultra Slim Fast are capturing most of the gains with Slim Fast Chocolate jumping to top spots on this year's ranking.

The big story in the hair care categories has been the rise of the salon and professional products geared to the mass market.

Redmon's Aussie brand scored extremely well in the spritz segment with Auusie Sprunch and in the conditioner category with its Australian 3-Minute Miracle. Helene Curtis, realizing the trend in consumer preference, created a similar mass market brand: Salon Selectives, our top growth brand in hair care and our top conditioner. Salon Selectives also placed three sku's on the hair spray chart as the only newcomer and the only value brand on the listing.

Gillette, another marketer who realized the trend toward professional lines, restaged its Silkience brand as a "salon" item.

Looking ahead to the 1990s, sales and margins can increase but not as easily as in the past as the new product introductions will lessen. Close attention to the lessons of direct product profitability, including the value of the higher ticket sale, the importance of shelf management, turnover and "just in time" inventory control strategies, will be essential in the business environment of the '90s.

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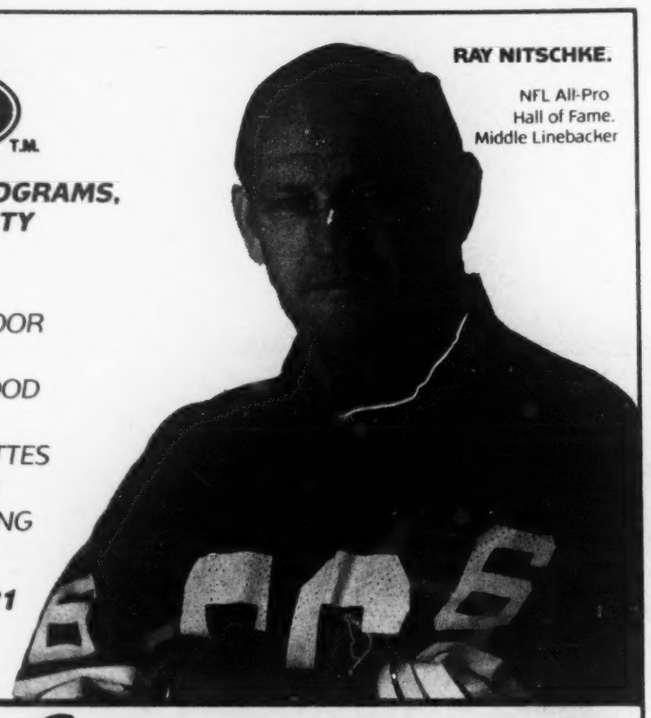

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Find out what's creating all the stir.

Along with the fanatical home fitness and exercise craze has come the soaring popularity of Dazey TurboSpas. Our unique turbo-action aerated whirlpool will turn any bath into a private health club. And that's why our TurboSpas are bubbling over with sales opportunities for you.

Dazey

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ATTENTION STORE MANAGER:

We offer Cooperative Merchandising Agreements to all retailers in the U.S.A. Some Agreements are annual—some are short-term.

Payments are made for print or electronic media featuring, display, and consumer-directed promotion. Product coupons and samples are distributed in stores in various markets at various times. Details are set forth in specific Agreements. Proof of performance (e.g., tear sheets) and proof of delivery (wholesalers' invoices) are required for some offers. Also, we offer display material, newspaper proofs, etc., to assist you in merchandising our brands.

The above promotional offers are practical and usable by all retailers regardless of size. You may now be performing under an Agreement and payments are being made to you or to your headquarters. Reduced price allowances are also offered periodically to retailers for special purchase or distribution.

If you are not performing or receiving such promotional offers and would like to, send your name, address and telephone number to Procter & Gamble, Box 162, Cincinnati, Ohio 45201 and our sales representative will contact you. Please specify, if possible, the Company Division in whose brands you are interested.

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Beauty Care Division
Beverage Division
Food Products Division
Health & Personal Care Division
Packaged Soap & Detergent Division
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Richardson-Vicks U.S.A. Personal Care Products Division
Vidal Sassoon

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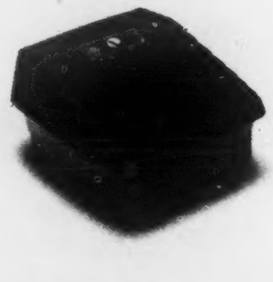
Witness the saving of people's soles.



The Dazey Foot Saver has been the salvation of millions of tired, aching soles. That's because only Dazey combines heat, vibration and aeration to deliver total comfort. And with more and more joggers and aerobicizers, it's bound to continue to sweep America off its feet.

Dazey

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Sears Debuts Fashion-Forward Men's Apparel Department

(Continued from page 1)
individual markets, Sears will go with three differently sized men's departments. The one debuted here will be the largest, with the other two being planned between 10,000 and 16,000 square feet in size.

Warren Flick, vp of men's and children's apparel for the Merchandise Group, said that the new department's "first-class, contemporary store environment will give us an edge over discounters," while "well-trained salespeople and a larger salesforce—combined with the appeal that the Sears name holds for men—will give us a strong advantage over department stores and other mass retailers."

The new department, which includes many sophisticated displays and liberal use of video monitors, concentrates on six distinctive category areas: young men's sportswear, activewear, big and tall, dress furnishings, classic sportswear and men's workwear. Having exited the dress clothing business, Sears has substantially expanded offerings in the first four categories.

With such national labels as Dockers, John Weitz, OshKosh, Farah, Levi's, Cotler, Puma, Reebok, Champion and Hobie, Sears has traded up and out of the men's wear brands—like Manhattan, McGregor, Campus—that most discounters carry.

While not directly comparable because of the differing brands, Sears remains substantially higher in price points in most items compared to most discounters.

Flick added that next month Sears will add an exclusive line of men's casual sportswear from OshKosh.

Warren Flick, Sears' vice president of men's and children's wear, presides over 'The Men's Store at Sears.' (DSN photo)

Wal-Mart Unveils Plans to Reduce Costs with Technology

(Continued from page 1)
sity of Arkansas' basketball arena in this northwest Arkansas town only a few miles from Wal-Mart's Bentonville headquarters.

Bobby Martin, senior vp for data processing, said that the company's $200 million investment in scanning is almost complete. With the help of a videotaped program projected on three giant screens that formed a backdrop to the stage, Martin laid out Wal-Mart's state-of-the-art system that communicates from the cash register to the warehouse to, in some cases, the supplier. Martin said 1,300 suppliers are tied into the automated merchandise flow.

The company's satellite relay for credit card approvals—bypassing commercial telephone carriers—got its first workout during the Christmas buying season last year and completed each relay in a matter of seconds, Martin said. Soon, he added, cash registers in all company stores will produce credit card slips, cutting the time now involved in writing out the slips for each transaction. The company's layaway system is also slated for full automation, Martin said, down to sending out "auto reminders" on merchandise held at the store.

But Martin and the other speakers insisted that Wal-Mart's technology push will not distance the company from its customers. "It will match the way our people think and the way they work," Martin said. Wal-Mart, he said, will continue to be consumer-driven. "That's really what we're trying to do with our technology," he said.

Glass also stressed that Wal-Mart was not putting technocrats at the head of a retailing empire. "We are all merchants," he said, "we are merchandise-driven." Technology allows the company to lower costs—he estimated they run 4 percent to 5 percent below competitors' costs—and to cut margins.

To demonstrate lower costs, the stage was decorated on either side with shopping carts full of Wal-Mart merchandise and comparable merchandise from a competitor. On stage left, the cart full of products from a Wal-Mart store rang in at $120.98 while apparently the same merchandise in a cart labeled K mart was priced out at $131.38. On the right side of the stage, a Wal-Mart shopping basket rang in at $154.29 while Sears came in at $186.91.

Donald Soderquist, Wal-Mart's vice chairman, recounted some of the good news for the stockholders—including a reminder that Wal-Mart, though third behind Sears and K mart in sales volume, leads the retailing industry in profit dollars both last year and during the first quarter this year.

Soderquist said that Wal-Mart now has 14 million square feet of retailing space in its Wal-Marts and its Sam's Wholesale Clubs. Paul Carter, the company's cfo, said plans for this year include 155 new Wal-Marts and 20 to 25 more Sam's. But, Carter said, those plans could be derailed a little by zoning and construction holdups that might push the openings into the next fiscal year.

Carter said that the planned Hypermart USA in Kansas City, Mo., and three planned SuperCenters—full-sized Wal-Marts with a grocery department—might not come online until late in the fourth quarter or early next year.

The meeting opened with a series of testimonials from suppliers. Tom Laco of Procter & Gamble said that his company and Wal-Mart had gone beyond the "ordinary relationship" between seller and buyer to a partnership. "We are much more effective," Laco said. "We make more money and we have a lot more fun doing it."

The company also pushed its "Made in the USA" program. Glass cited a contract with Sanyo of Forrest City, Ark., that is "a super deal." From the Sanyo lines, he said Wal-Mart is getting 25-inch color televisions with remote control that it sells for $298 each. "It's blowing out of our stores," Glass said.

Al Parriss of Sweaters USA, another Wal-Mart vendor, said his company will supply Wal-Mart with 700,000 units during the year on a quick response basis.

"Quick response is not a gimmick," he said, "it puts the consumer in the driver's spot," by allowing buyers to respond to consumer preferences on a short-term basis rather than defining them by ordering seasons in advance.

Soderquist said that the soft lines department would see continued emphasis at Wal-Mart in presentation and selection. Wal-Mart, he said, wants to be "the basic apparel merchandiser for America."

The meeting was also marked, as usual, with songs and skits that combined patriotism and Wal-Mart fervor. A group of male cheerleaders, decked out in red, white and blue accents, led the crowd in the Wal-Mart cheer.

The shareholders elected two new directors, raising the board membership to 17 from 16. The two new members are Robert H. Dedman, chairman of the Club Corp. International, based in Dallas, and of Franklin Federal Bancorp in Austin, Texas; and F. Kenneth Iverson, chairman of Nucor Corp., a steel manufacturer with a plant in Blytheville, Ark. Charles Lazarus, chairman of Toys "R" Us, resigned from the Wal-Mart board after five years. Walton said that Lazarus, who was not at the meeting, left because "between the two companies we control so much of the toy business in the United States" that a conflict between Lazarus' two positions was inevitable.

Use of Kiosks as Selling Tool Grows

(Continued from page 3)
mation on selecting tires and batteries. The terminals were supplied by ByVideo, which developed the informational program in cooperation with PACE and the suppliers.

- Sears using kiosks to test different informational and selling programs in a number of store and non-store sites.

The retailer plans to deploy a new kiosk developed by NCR later this year or early in 1990 for an undisclosed application. The two companies acknowledged the proposed venture but declined to comment on the specific use.

Sears is using ByVideo kiosks in a number of areas. It has already installed transactional terminals in 12 stores to sell Sears brand and Hy-Test work shoes and boots, while in five other units it's selling Acme boots from the manufacturer's kiosk. It is continuing to test terminals in lighting departments in a number of stores, with the units providing information and processing sales on 650 sku's, three times the actual store stock.

The retailer is maintaining its year-old test of Gift Sender kiosks in 10 Chicago locations. These terminals don't have any Sears identification as the company's research showed that Sears, K mart, JCPenney and similar retailers had "negative" images as a source for gifts, Jerry Coll, a Sears executive, said.

- Advanced Marketing Technology plans to expand its six-month-old Host Gift USA operation, a joint venture with Host International. It expects to grow from 40 selling and informational machines in nine airports to 100 terminals in about a dozen airports. In addition, Hertz Business Centers will grow to 25 kiosks from 12. The terminals merchandise 100 items from a number of suppliers, with Host Gift USA buyers selecting the goods.
- Phar-Mor and Woolworth Express plan to expand their use of Advanced Interactive Video information and couponing terminals from 150 and 20 stores, respectively, with other undisclosed retailers planning to deploy the kiosks.

AIV president Theodore S. Celeste noted that the 30 Phar-Mor stores that had the kiosks for a full year dispensed 2.5 million worth of coupons from 20 manufacturers, with an average redemption rate of about 10 percent, much higher than for newspaper coupons.

- Levi Strauss, which currently has 250 kiosks in use, is considering installing the terminals in 2,000 stores. This expansion would include tieing in the machines to its electronic data interchange replenishment system to facilitate shipment of goods to consumers. Sale of the merchandise would still be credited to the retailer that houses the terminal.

Using electronic retailing technology wasn't originally part of Levi Strauss' core business so expanding the number of kiosks wasn't part of the company's growth program. "We are now pursuing this business as part of our growth," said Jeff Harlowe, a company executive.

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Wal-Mart Named Retailer of the Decade

NEW YORK — Can you imagine one company which operates in a territory with less than 50 percent of the U.S. population adding almost as much sales as Woolworth's worldwide revenues of $8 billion? Or, how about going from $1 billion in *sales* to $1 billion in *profits* in just 10 years?

Can you envision one company adding as much sales over the next five years (1989 to 1993) as K mart and Sears each had last year? Or, that this company's growth in profits will be greater than its

WAL-MART

sales growth over the next couple of years?

Can you believe that *conservative* estimates project this company's sales to exceed $32 billion in 1990, $50 billion by 1993 and $70 billion by 1995?

The company, of course, is Wal-Mart. And the above observations—posed by several retail analysts and industry observers—point out just a few of the many amazing accomplishments of the Bentonville, Ark.-based discounter.

Wal-Mart, the most dominant, aggressive retailer of the 1980s, has been named Retailer of the Decade by *Discount Store News*. In recognition of this achievement, *DSN* will dedicate its entire December 1989 issue to exploring the secrets behind Wal-Mart's success.

Discount Store News®

SECOND CLASS

THE NEWSPAPER OF DISCOUNT RETAILING

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'89 Discount Sales to Top $148B

Top 150 Chains Record 14.2% Sales Increase in 1988

Nationwide DSN Report

The continued growth of the membership warehouse segment, surprising strength among the full-line discount department stores, a resurgence by the top catalog showrooms and sales increases from some new specialty concepts will push total discount retailing sales to $148.1 billion this year.

That represents a 5.5 percent increase over the $140.4 billion in sales generated by discount department stores, discount specialty chains, membership warehouse clubs, off-price apparel chains and catalog showroom operators in 1988.

Data collected by *DSN* in its annual report on the discount industry, featuring the first-ever listing of the 150 leading discount chains, (beginning on page 49) revealed:

- Thirty-four discount and specialty chains either changed hands, underwent leveraged buyouts, went public or got spun off in the past 18 months (page 53);
- K mart retained its throne as the nation's largest discounter, but Wal-Mart dominated nearly every measure of growth (pages 61 & 62);
- The nation's Top 150 discount retailers rang up $132.1 billion in sales last year, a 14.2 percent increase over the volume those chains generated in 1987 (pages 57 & 58);
- The industry's 53 largest full-line discount department store chains recorded $81 billion in sales, up 10.4 percent from 1987 (page 65).

In-depth reports on catalog showrooms, apparel off-pricers, membership clubs, all specialty chains, hypermarkets, deep discount drug stores, variety chains, dollar discount stores, closeouters and home shopping retailers begin on page 105.

DSN's "Annual Report Part II: Merchandising and Productivity Analysis" will appear in the July 17 issue.

Sam's Northeast Rollout Underway

Move May Trigger Warehouse War

By Arthur Markowitz

BENTONVILLE, Ark. — Sam's Wholesale Club plans to invade the Northeast with at least 18 stores during the next 30 months, an expansion move that has enormous implications for the membership warehouse field and its parent company, Wal-Mart.

Sam's is moving into the Northeast for the same reason other membership warehouses are expanding in the area: the 10-state region is a densely populated area with an average income higher than that of the country as a whole. It also has a strong, diversified economy that has weathered business swings better than other regions of the nation. Sam's first two stores are set to open this fall in Atlantic City and Delran Township, N.J.

Currently, the Northeast is understored with warehouse clubs. The region has only 26 wholesale clubs in eight states—less than the three dozen doing business just in Los Angeles alone. The indus-

(Continued on page 154)

Price Club Furnishings store in Santee, Calif., sells high-end furniture and other home goods in warehouse format. (DSN photo)

The Sears, Penney, Ward Split

3 Major Mass Merchandisers Go Their Separate Ways

Nationwide DSN Report

The familiar Sears/Penney/Ward triumvirate crumbled last year.

At one time the three mass merchants were often referred to in the same breath as "Sears/Penney/Ward" or the "GM (general merchandise)" retailers. But that may have ended last June when Montgomery Ward adopted an everyday low price strategy and reformatted its stores to become a collection of power retailers.

Four months later, Sears announced that it was considering a similar strategy, and by December had developed and implemented two power "superstore" formats, in floor coverings and consumer electronics. Headlines around the country hailed the new "discount-look" Sears.

Then, in late January, the nation's largest retailer announced that it would reduce prices on 50,000 items in its stores and adopt, over the next two years, a brand-oriented approach to all departments storewide.

The price-cutting was quickly followed by the introduction of new superstore-within-a-store formats in children's products and men's apparel.

Meanwhile, Penney virtually dropped hard lines, most dramatically its CE department, and became, in essence, a soft lines department store.

Although none of the three has completed its overhaul, Ward's direction is clear enough that *DSN* has decided to add Montgomery Ward to the list of top American discount and discount specialty retailers.

(Continued on page 121)

New Price Co. Store Targets Home/Office Furnishing Biz

By Pamela Meek-Krein

SANTEE, Calif. — In its first diversification from its traditional membership warehouse club business, Price Co. has opened its first home and office furnishings showroom at a former club site here.

Opened June 17, Price Club Furnishings combines a high-end furniture store with the low-margin elements of the warehouse club format. The 48,000-square-foot site still has the warehouse interior with its high open ceilings and cement floors, yet the store has added dropped trak lighting and carpeting in the showroom area.

(Continued on page 154)

Value-Added Produc... Spotlighted at Summ... page 3

...ources ... Show

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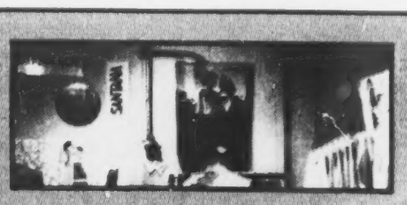

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MARKETWATCH

K mart Contributes to Minority Suppliers

TROY, Mich. — K mart has presented $500,000 to the National Minority Supplier Development Council, doubling the discounter's contribution to NMSDC's Business Consortium Fund (BCF) to $1 million. BCF helps suppliers with black, Hispanic or other minority ownership to obtain working capital loans. K mart chairman Joseph Antonini is chairman of NMSDC, which estimated that K mart's contributions have resulted in 1,100 new jobs in the minority community.

Price Club Canada to Open Two Units

MONTREAL — Price Club Canada will spend $23 million (Canadian) to open two 110,000-square-foot Club Price membership warehouses this fall in Ville d'Anjou and Laval as its fifth and six stores in Canada. Another four units are to be opened during the next three years by the company, which is partly owned by The Price Co.

Service to Sell The Computer Shoppe

NASHVILLE, Tenn. — Service Merchandise plans to sell for an undisclosed amount The Computer Shoppe, its 11-store computer chain, to Profit Computer Technologies as part of its move to focus on its core showroom business.

Carrefour Buys $41M of Office Depot Stock

PARIS — Carrefour, the publicly held French merchant and owner of a hypermarket in Philadelphia, has augmented its investment in United States retailing by signing an agreement to purchase 1.8 million shares of previously unissued Office Depot common stock for $41.4 million. The agreement restricts Carrefour's holdings in Office Depot to 25 percent of its stock but allows Carrefour to nominate one Office Depot director.

Parent Separates CVN from C.O.M.B.

MINNEAPOLIS — CVN Cos. has separated its direct marketing businesses into two distinct operating groups, one centered on its CVN cable teleshopping arm and the other its C.O.M.B. mail order closeout division. CVN accounted for almost 60 percent of the parent's $588 million in revenues last year, and the share is expected to grow this year.

NACSM Sponsors Seminar on Jewelry

NEW YORK — The National Association of Catalog Showroom Merchandisers will hold a jewelry seminar July 23 in the Jacob Javits Convention Center, meeting room 1E03, starting with a continental breakfast at 7:45 a.m. Panelists include John Baumgartner, Best Products; Barbara Kelley, K's Merchandise; Mike Kraft, W. Bell; Leonard Luria, L. Luria & Son; Alan Kaufman, Tru-Kay Manufacturing and Bill Kuhn, Citizen Watch Co. The seminar will be held during the annual Jewelry Show.

Glosser Bros. Obtains Line of Credit

JOHNSTOWN, Pa. — Glosser Bros., which is in Chapter 11 bankruptcy, has secured a $15 million revolving line of credit through May 31, 1990, from New York's Chemical Bank. Glosser said cash flow continues to be positive following the closing of several stores, so it doesn't expect to draw on the line of credit.

Crazy Eddie Files for Chapter 11 Protection

EDISON, N.J. — Crazy Eddie filed for Chapter 11 late in June. The company's 26 stores will remain open, as the retailer continues negotiations with major vendors to restructure its debts. A recent attempt by five creditors to force Crazy Eddie into involuntary bankruptcy played a major part in the retailer's decision.

Pic 'N' Save Eyes Consolidated Stores

COLUMBUS, Ohio — Pic 'N' Save, the nation's second largest closeout chain, approached Consolidated Stores, the nation's largest, about the possibility of buying Consolidated. But the talks came to naught, Consolidated said after the two companies were unable to agree on any terms of a possible acquisition.

FOR THE RECORD

In the May 8 issue of *DSN*, an article titled, "Newcomers Add Sizzle to Hot Market," implied that the Warehouse Club and American Wholesale Club had "failed miserably" in the Chicago market. The reference was to two locations operated in turn by the two companies, which both failed. The Warehouse Club operates several other locations in the Chicago market profitably and successfully.

Wal-Mart Switches to New Rx

McKesson Recaptures Pharmacy Account From FoxMeyer

BENTONVILLE, Ark. — Wal-Mart will switch drug distributors in August, reportedly to improve service to its pharmacy departments.

The switch comes at a time when the discounter has begun a chainwide roll out of pharmacies, at a rate of about 150 per year, according to a report in *DSN*'s sister publication, *Drug Store News*.

Wal-Mart pharmacies generated about 4 percent of the chain's sales or $825 million during 1988, based on corporate reports. Wal-Mart owned 780 pharmacy departments and leased 142 of these at the start of this year.

San Francisco-based McKesson Drugs recaptured the Wal-Mart account from FoxMeyer Drug Co., which had serviced Wal-Mart pharmacies the past four years. Prior to FoxMeyer, McKesson had handled the Wal-Mart account. There is strong disagreement between the firms concerning the factors that led to Wal-Mart's decision to return to McKesson.

FoxMeyer released a statement last month which said, "increasing emphasis on improving financial performance led to not having its contract renewed with Wal-Mart Stores." In the same statement, Robert King, FoxMeyer president and ceo said that his company, "submitted a pricing proposal similar to our current arrangement. However, this did not fit with Wal-Mart's pricing needs. Wal-Mart told us that service was not a fact[illegible] . . ."

Fred Toney, senior vp, sales and marketing at McKesson, said, "We met their needs from a service standpoint . . . I'm sure they [FoxMeyer] would say it was price, but Wal-Mart would acknowledge it was the service."

In an interview with *Drug Store News*, Wal-Mart indicated that service frequency was the primary element in its decision, but Clarence Archer, vp, pharmacy, did not deny price was also a factor.

HQ Office Supply Goes to Canada

Steps Up Growth Plans; Founder Eyes Auto Parts Venture

By Pamela Meek-Krein

LONG BEACH, Calif. — HQ Office Supplies Warehouse founder Robert McNulty is taking his concept to Canada, becoming the first United States office supply chain to venture beyond the nation's borders.

Meanwhile, the early success here of McNulty's young office supply megastore has prompted a step-up in first-year store opening plans. Although initial projections called for the company to open 10 to 12 locations on the West Coast, HQ now expects to launch between 14 and 16 stores by the end of 1989.

In addition, *DSN* has learned that McNulty—whose track record includes the successful launch and sale to Zayre of the HomeClub home improvement chain and the founding of the ill-fated All American SportsClub sporting goods chain—is developing an auto parts warehouse concept called Auto Giant. Further details on the auto aftermarket retailer were unavailable at presstime.

The Canadian version of McNulty's office supply chain

(Continued on page 154)

STOR Settles IKEA Suit

CITY OF INDUSTRY, Calif. — After more than a year of legal battles, West Coast home furnishing retailer STOR has reached an out-of-court settlement with rival IKEA that requires only minor operational changes.

IKEA, the Scandanavian-owned home furnishings retailer which opened its first California store earlier this year, filed suit in the spring of '88 charging copyright infringement penalties against STOR and its catalog, which IKEA claimed was too similar to its catalog. Under the settlement, STOR doesn't have to pay any damages, opposing attorney fees, and its profits cannot be attached by IKEA.

The settlement comes at the same time STOR launched its third location—the first to open in a major regional mall setting. Located in the nation's largest indoor mall at Del Amo Fashion Center in Torrance, Calif., the STOR site is decidedly more upscale than the chain's first two locations.

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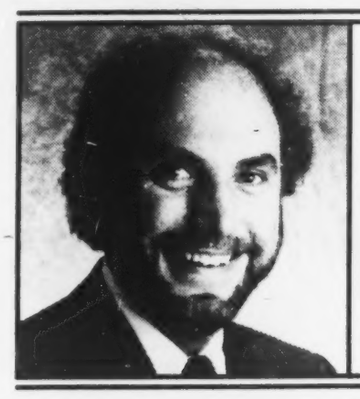
DSN Plans Special Tribute to Wal-Mart

Have you heard the latest Sam Walton story?

About two weeks ago, Walton was visiting a store in the Florida Panhandle, coincidently in Fort Walton Beach, when electrical problems shut down the cash registers. And wouldn't you know it, but there was Walton with a note pad writing the prices of merchandise so the cashiers could process their orders. He greeted everyone, shook hands, and reportedly kept customers from getting upset during the hour the registers were inoperable.

There are hundreds of similar stories about Mr. Sam and everyone has a personal favorite. But this latest escapade is a reminder of the hands-on style Walton has made famous. It also is a reminder of the cornerstone of success that Wal-Mart has enjoyed.



TONY LISANTI
Editor

Three months ago I wrote: "Sam Walton has made every employee a part of the company. Sam has never lost touch with his employees or his customers. Sam makes his actions speak louder than words. And above all, Sam has never let the entrepreneurial spirit die."

Two years ago I wrote the following in conjunction with our 1987 annual report: "I could sum up the year in discounting in one word—Wal-Mart! Regardless of how you analyze the data, everything comes up Wal-Mart."

The same is true in 1989. In fact, the same point could be made for every year since 1980. And there appears to be no end in sight to the Wal-Mart phenomenon. Based on sales projections, Wal-Mart could become the nation's No. 1 discounter in 1990.

Consider these facts of growth at Wal-Mart since 1980:

- Total discount stores sales increased from $1.6 billion in 1980 to $16.8 billion in 1988.
- Net income increased from $55.7 million in 1980 to $837 million in 1988, topping K mart's $803 million.
- Its store count increased from 330 in 1980 to 1,259 in 1988.
- Sam's Wholesale Club didn't even exist in 1980. The first unit opened in 1983 with sales of about $40 million. In 1988, sales hit $3.8 billion from 105 clubs.
- Hypermart USA and Wal-Mart SuperCenters provide Wal-Mart with two new concepts (incorporating food sales) that each could be generating over $1 billion in sales by 1992.

I could go on and on with similar statistics and comparisons, but clearly Wal-Mart has dominated discount retailing through the 1980s and will continue to be dominant through the 1990s.

To recognize Walton and all of the discount retailer's associates for their astounding accomplishments, *Discount Store News* has named Wal-Mart Retailer of the Decade. In the tradition of *DSN* and the discount industry, this unprecedented award is the highest honor ever bestowed upon a retailer.

As the prosperous decade of the '80s comes to an end, it is a fitting tribute that *DSN* dedicate its entire December issue to Wal-Mart, the Retailer of the Decade. It will be a review of the growth and accomplishments of the most exciting and elusive retailer. It will be the most comprehensive analysis of Wal-Mart ever published.

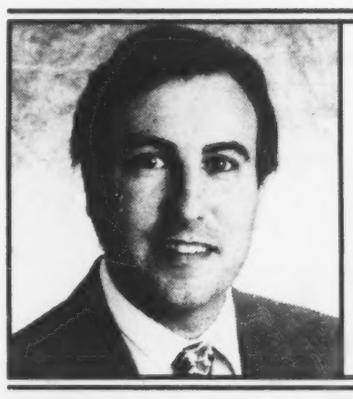
On behalf of *Discount Store News*, let me be the first of thousands of retailers, suppliers, and friends to officially say to Sam, Dave Glass, and every one of the more than 225,000 Wal-Mart associates: "Congratulations!" And remember what Sam said during an annual meeting two years ago remarking about fiscal 1989 sales projections, "I know one thing. We've only just begun."

BUYERS & SELLERS

Hundreds of Discounters Offer Opportunities

One of the more common complaints I hear from manufacturers who supply the discount industry is that there are fewer and fewer retail customers for them to supply.

After hearing some of them talk, you'd think that the retail industry was composed of just K mart, Wal-Mart, Target, and a handful of "mom and pop" stores. What hogwash!



DON LONGO
Exec Editor

There's no denying that a disproportionately large share of business is in the hands of a select few: The top 10 chains, with nearly $72 billion in sales, accounted for about half the industry's total volume last year. But, as this special Annual Report on Discount Retailing (beginning on page 49) dramatically shows, there were at least 200 discount retailers doing significant volume last year. Besides the top 10 companies that racked up $3 billion or more in sales last year, there were 26 with at least $1 billion in '88 sales; 48 that did $500 million or more; 77 did $250 million; and 120 discount retailers generated a minimum of $100 million in sales. Hardly "mom and pop" operations.

This year, the *DSN* editorial staff put together the first-ever listing of the top 150 discount chains, including full-line discount department stores (still the largest segment), off-price apparel chains, consumer electronics chains, catalog showrooms, auto aftermarket specialty chains, membership warehouse clubs, sporting goods specialty chains, toy specialty chains, dollar discount chains, closeout chains, hypermarkets and office supply megastores. These top 150 chains sold more than $132 billion worth of merchandise last year, a 14 percent increase over 1987.

So, while many manufacturers will bemoan the fact that they can't get an appointment with the K mart buyer, or that Wal-Mart is making unrealistic demands on them, or some other difficulty in dealing with one of the "giants," smart suppliers will target the large group of middle-sized chains that offer new opportunities, especially for the middle-sized vendor.

IMRA PRESIDENT'S CORNER

Retailers Can Profit from Consumer Survey

At IMRA's annual convention last May, the attendees were treated to one of the best studies on consumer shopping preferences in many years.

Ambassador Cards prepared and presented a study on "Retailing Excellence: The Customer's Perspective" to review why customers shop in discount stores (see story, page 46). The objective was "to identify ways in which mass retailers . . . could become more competitive against other channels of distribution." This is certainly one of the key aspects to future success in the mass retailing field. This industry is littered with companies who ignore their competition or who ignore their key customer base.

RICHARD HERSH

The summary of findings also lends itself to the above conclusion. As stated in the study: "the research suggests clearly that retailing excellence means the ability to successfully build and strengthen your relationship with the consumer. This involves a process of expanding and fulfilling promises."

The study deals with fifteen categories of merchandise so that it is broad enough to be able to use it as a cross-section the merchandise assortment in discount stores today.

We are pleased that Bob Firnhaber, president of Ambassador Cards, and Bill Marter, vice president, were willing to put their valuable time and money behind such an important study for the industry. The risks inherent in such a study are well-known and we greatly appreciate their support in this endeavor.

As the study concludes: "In this increasingly competitive environment, it is important to focus on strategies that will help you become the preferred shopping alternative in the market. The findings . . . clearly suggest that store loyalty can be achieved by investing time and resources into building and strengthening a lasting relationship with your customers."

Very clearly words to live by!

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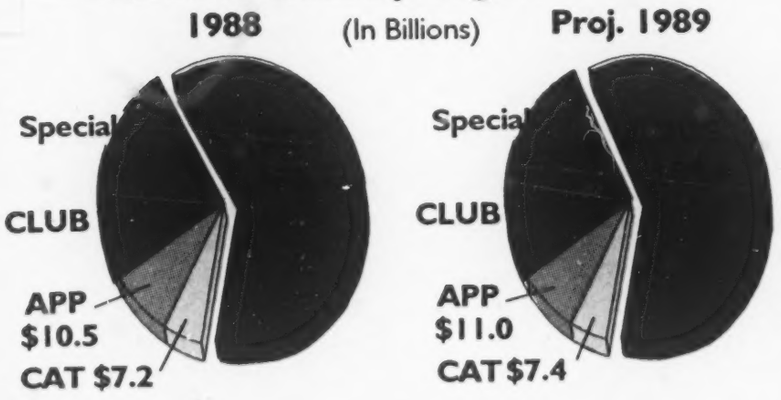
Discount Store News

ANNUAL REPORT 1988

The Most Comprehensive Report On All Segments of Discount Retailing

Discount Industry Segment Sales

1988 (In Billions) Proj. 1989



CAT: Catalog Showrooms **DDS:** Full-Line Discount Department Stores
APP: Off-Price Apparel Chains **CLUB:** Membership Warehouse Clubs
Specialty Discounters: toy chains, CE chains, sporting goods chains, automotive aftermarket chains, office supply megastores, and others.

Source: DSN research

DISCOUNT INDUSTRY ANNUAL REPORT

Specialty mass retailers will see their rapid sales growth of recent years slow somewhat as several categories reach a more mature state. Sales of toy, consumer electronics, sporting goods, auto parts, office supply and other specialty discount chains will hit $23.4 billion in 1989, a 5.9 percent increase. That's a slackening in the 16.3 percent gain these retailers achieved in 1988.
Specialty segment profiles begin page 110.

10 Discounters Comprise Three Billion Dollar Club

Just when you thought being a member of the Billion Dollar Club was the height of exclusivity, along comes the Three Billion Dollar Club.

Belonging to the 26-member Billion Dollar Club is still nice, but landing in *DSN*'s 1988 Three Billion Dollar Club—which means being one of the nation's top 10 sales volume discounters—is now the ultimate status symbol.

The top 10 discount store chains racked up a 16.2 percent sales gain last year, proving once again that the big just keep getting bigger. For the first time since the compilation of *DSN*'s top chains chart, the No. 10 chain hit the $3 billion sales mark. Meijer was the chain to hit the magic $3 billion mark for 1988 sales, while the No. 10 chain last year, Ames, posted a mere $2.1 billion in 1987 sales.

For the top 150 chains as a whole, sales rose an average of 14.2 percent.

The top 10 chains also expanded in store count at a greater rate than the entire 150 chains—12.4 percent compared to 10.1 percent.

The only chain to drop out of the top 10 was Zayre Corp., which sold its discount store division to Ames. The new addition to the top 10—and to the list as a whole—is Montgomery Ward. However, even if Ward had not been included, Zayre would have plummeted to 10th place from its 1987 fourth place slot. Of course, with Zayre changing its name to TJX Cos. this month, that venerable name will not appear on next year's Top 150 list of discounters.

Within the top 10, the biggest upward mover was Sam's Wholesale Club, shooting up to 6th on the list from 1987's No. 9 ranking.

Even with the addition of Zayre's discount store division's fourth quarter sales, which produced a 59 percent sales increase, Ames only managed a two-place rise to the eighth slot. That still leaves the Rocky Hill, Conn.-based discounter behind not just the new "big four" full-liners—K mart, Wal-Mart, Target and Montgomery Ward—but also trailing Price Club, Sam's and toy specialty chain Toys "R" Us. Service and Meijer round out the top 10.

For the first time a 26th chain has joined the Billion Dollar Club—Western Auto, which increased its sales nearly 19 percent last year.

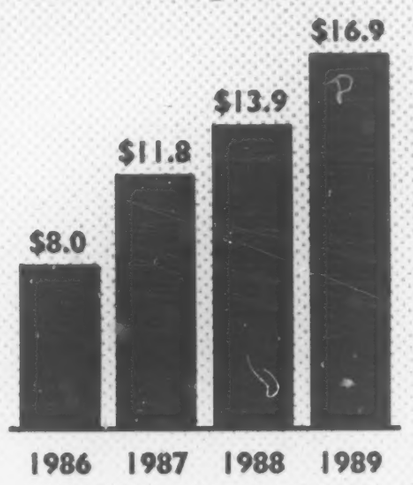
From among the top 25, three chains dropped as many as three places in the rankings—Hills, from 15 to 18; Caldor, from 16 to 19; and Rose's, from 19 to 22. The only two-place rise up the top ranking came from Costco, going from 17 to 15.

Going down the list to include the top 100, the biggest ranking gainers were: Whitlock (a 73 percent sales jump), up 21 notches to 74th place on the list; Price Savers (estimated 100 percent sales increase last year), a 16-slot surge from 60th to 44th; Kids "R" Us (estimated 42 percent gain), a 14-place jump from 70th to 56th; Nationwise (38 percent sales increase), up 12 places to No. 72; Northern Automotive (56 percent rise), a 10-place promotion to 37th from 47th; Bi-Mart (25 percent sales gain), also up 10 notches to 64th, and BJ's Wholesale Club (sales up 39 percent), a gain of eight

(Continued on page 54)

Full-line discount department store sales will climb 3.1 percent this year to 89.4 billion. In 1988, full-liner sales hit $86.7 billion, a 2.1 percent increase over 1987. Sales increases among the larger chains outpaced the total segment. The top 53 full-line discount store chains racked up a 10 percent sales gain, and volume at some of the industry giants rose at an even faster clip.
See story, page 65.

Membership Clubs



By far the fastest-growing discount segment, the membership warehouse clubs' sales grew by 17.8 percent last year, and are projected to increase another 21.6 percent in 1989. Those figures may even be conservative in view of the aggressive store opening plans of Sam's, Price Club, Costco, Makro, The Wholesale Club and Club Wholesale.
See story, page 108.

Apparel Off-Pricers

After a solid 6.1 percent sales gain in 1988, off-price apparel chains are expected to notch a 4.8 percent gain in 1989. The leading 15 off-pricers, which accounted for nearly 65 percent of the segment's sales, will grab an even larger share of the off-price sales pie this year.
See story, page 106.

Middle-Tier Chains Struggle As Profits Come Under Fire

A spate of liquidations, Chapter 11 bankruptcy filings and store closings—along with declining operating profits—underscores the troubled times that many small- to medium-size regional discount chains are encountering this year.

Mars Stores, North Dighton, Mass., became the latest full-line discounter to liquidate, following a loss of $8.4 million on 1988 sales of $79.8 million. It announced plans last month to liquidate its eight remaining stores, down from 18 in 1987. It had declared Chapter 11 March 1.

In specialty chain liquidations, a debtor in possession of OTASCO, Tulsa, Okla., ordered the liquidation of the 70-year-old home and auto chain in May. OTASCO, with sales of $275 million in 1987 from 221 stores, filed Chapter 11 bankruptcy last November and closed all its stores because it couldn't finance Christmas inventory. The debtor in possession reopened 63 stores this spring, but then quit for good.

In sporting goods, a bankruptcy trustee ordered in March the liquidation of All American SportsClub, Los Angeles, which pioneered the sporting goods membership warehouse club concept. Once boasting eight units, SportsClub, under founder Robert McNulty—who previously founded HomeClub and recently launched HQ Office Supplies Warehouse—was down to just four at the end.

And a consumer electronics chain, the Federated Group, Sunnyvale, Calif., is being treated as a discontinued operation. Its parent company, Atari Corp., is "exploring several options" about selling or spinning off the chain, including a leveraged buyout. Sales plunged to an estimated $253 million in 1988 from $437 million in 1987—the year Atari acquired it.

Crazy Eddie, Edison, N.J., another CE chain, is fighting for survival as five creditors attempt to force it into involuntary Chapter 7 bankruptcy. Prior to the liquidation attempt, filed last month in bankruptcy court, Crazy Eddie had closed 17 of its 43 stores in efforts to survive.

The beleaguered chain was forced to file for Chapter 11 protection from creditors late last month, but promised to keep its stores open as it tries to reorganize.

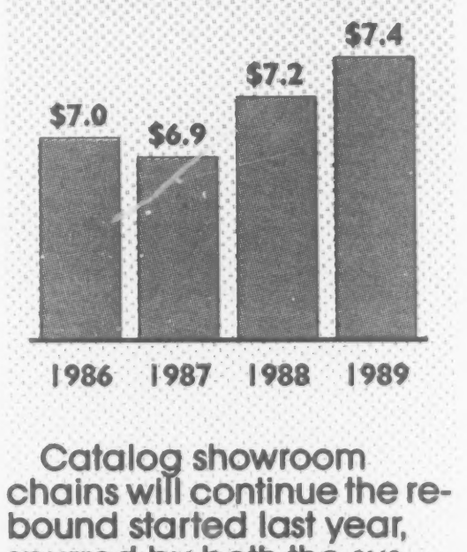
Among others striving to remain in business by filing for Chapter 11 protection, Duckwall-ALCO, Abilene, Kan., took that step in May, closing 51 of its 150 stores. The chain blamed bankruptcy on the heavy debt load stemming from a leveraged buyout four years ago, competition from Wal-Mart, and poor rural economies in its markets.

LBO debt service also helped shove Glosser Bros., Johnstown, Pa, into declaring Chapter 11 in March. Glosser immediately closed one of its 23 Gee Bee full-line stores and then closed two more, along with eight stores of its 45-unit Dollar Bargain closeout chain and its flagship department store in Johnstown. Its store count now stands at 20 Gee Bees and 37 Dollar Bargains.

And Maxway, Sanford,

(Continued on page 54)

Catalog Showrooms



Catalog showroom chains will continue the rebound started last year, spurred by both the sustained growth of industry leader Service Merchandise and strong performances by several regional companies. Catalogers' sales this year are expected to reach $7.4 billion, a 2.8 percent gain.
See story, page 105.

Annual Report Methodology

This year, for the first time, *Discount Store News*' "Annual Report 1988: Part I" on the discount industry includes information on the top 150 discount chains in the nation. It also contains profiles on the leading variety store chains, closeouters, general merchants and dollar discount chains, in addition to the usual annual reports on full-line discount department stores, catalog showrooms, apparel off-pricers, membership warehouse clubs, hypermarkets, electronic and home shopping services,and the following specialty chain segments: auto parts, toys, sporting goods, consumer electronics, office supply megastores, and deep discount drug chains.

DSN's exclusive Top 150 list was compiled from company annual reports, filings with the Securities and Exchange Commission and phone calls to more than 200 of the nation's leading discount retailers.

In nearly all cases, sales figures represent total store volume, including general merchandise, apparel and groceries; sales and store counts represent individual divisions (e.g., K mart discount stores only), and earnings represent operating income or profit/loss from continuing operations, before income taxes and extraordinary items.

"Annual Report: Part II—Merchandising and Productivity Analysis" will be featured in the July 17 issue of *DSN*. This issue will contain a review of discount department store volume, turns and margins in several product categories, specialty chains and catalog showrooms' share of sales, discount store penetration by state, productivity rankings of the top discounters, and profiles of the largest discount department stores.

DISCOUNT INDUSTRY ANNUAL REPORT

Climate Ripe for More M&A Activity

In the first half of 1989, the pace of retail mergers, acquisitions and leveraged buyouts slowed from last year's torrid rate.

But the competitive and cost forces that propelled restructuring last year still are pressuring retailers, while plenty of money remains available to finance deals. Accordingly, merger specialists expect retail mergers and acquisitions to pick up during the last half of 1989, following a slow start.

As the accompanying chart shows, 34 discount and specialty chains either changed hands, underwent leveraged buyouts, went public or got spun off from January 1988 through July 1989. That compares with a total of 20 during the 18 month period from January 1987 to June 1988.

127 Chains Affected in 1988

During 1988, 127 retail chains changed hands, including five discount and variety store chains, Merrill Lynch reported in its Mergerstat Review for the year. Over the past five years, 690 retail chains were either merged or acquired, ranking third in volume after banking and finance and miscellaneous services.

Dollar volume of the 1988 deals was $23.86 billion, Mergerstat reported.

In discounting, Ames' acquisition of the Zayre Stores division of Zayre Corp. last October for some $800 million ranks as the second-largest acquisition of the 18 months. With 1989 consolidated sales expected to exceed $5 billion, Ames becomes the fourth-largest full-line discounter—hard on the heels of Target.

As of June 20, Zayre Corp., was no more, having spun off its BJ's Wholesale Club and HomeClub divisions into a new corporation, Waban, Inc., and renamed itself TJX Cos. The company now specializes in off-price apparel retailing with its T.J. Maxx and Hit or Miss chains and its Chadwick's of Boston catalog operation.

Wall Street initially placed a value of $508 million for the newly issued stock of Waban.

The largest acquisition was the $1.1 billion purchase of Best Products, a cataloger, by Adler & Shaykin, a York, Pa., investment group.

Other full-line discounters to change hands were Harts, Columbus, Ohio, bought by Penn Traffic in a $350 million acquisition of its parent, Big Bear, and Bi-Mart, Eugene, Ore., acquired by Thrifty Corp., Los Angeles, in a $232 million purchase of its drug chain parent, Pay 'n Save.

The $3.8 billion, management-led LBO of Montgomery Ward from Mobil Oil easily ranked as the largest deal.

Another billion dollar deal involved the management-led LBO of Bradlees parent, Stop & Shop Cos. Following the LBO, management sold 35 Bradlees in its Southern division in order to pay down debt.

Acquisition wheeling and dealing also resulted in the demise of the Gold Circle chain last year. After Campeau Corp. bought Gold Circle's parent, Federated Stores, Campeau sold its 76 stores for some $325 million to a real estate concern.

The operator then resold 35 stores to Hills, 31 to Target and two to K mart. The deal gave Target a chance to make a swift entry into a new market, the Southeast, and move a step closer to becoming a national chain—as well as keep a jump ahead of Ames-Zayre.

Several specialty chains are on the block.

In consumer electronics, Newmark & Lewis announced last month that it's for sale.

And, Atari Corp., which bought the Federated Group just two years ago, began treating the CE subsidiary as a discontinued operation at the end of its fiscal year this January. Atari said it is considering its options of either finding a buyer or entertaining a management LBO.

Tuesday Morning, a closeout chain, hired an investment banker in June 1988 to find a buyer, but so far, no takers.

In automotives, several chains are for sale, including Steego Auto parts.

In sporting goods, the future of the industry's largest chain, Herman's, is in jeopardy because its British parent, Gateway Corp. (formerly Dee Corp.), is the target of a hostile takeover attempt.

"It's no secret" that two concerns are vying to take over Dee Corp. [Gateway], a Herman's executive said.

One of the more unusual acquisitions last year involved the purchase in December of an off-price apparel chain, The Children's Place, by the Dabah family that controls an apparel vendor, Gitano. The Dabah family bought the 162-unit children's apparel chain, also a Federated unit, from Campeau for about $30 million.

In turn, Gitano took a five-year option to buy the chain in its own name.

Foreign interest in U.S. discounting increased modestly last year with the acquisition in July 1988 of Loehmann's, an off-price apparel chain, from May Department Stores through a leveraged buyout. Sefinco Ltd., a Madrid, Spain-based investment subsidiary of Entrecanales y Tavora S.A., led the LBO.

In addition, Ward White PLC, London, bought the R&S Strauss automotives chain to build on its previous automotive acquisitions, Whitlock and Rose Auto.

Other foreign acquisitions over the past 18 months include the purchase of Consumer Distributing catalog showroom chain by International Semi-Tech (Far East), a Hong Kong-based subsidiary of a Canadian concern. Another Canadian company, Dylex Ltd., became in June 1988 the sole owner of NBO, the men's off-price apparel chain, by buying the remaining 50 percent interest.

Office products specialty chains accounted for all four initial public offerings among discounters. Staples, the industry pioneer, went public this April, raising almost $62 million. Office Depot led the parade in June 1988 with a $21 million offering.

HQ Office Supplies Warehouse, a new venture of Robert McNulty, founder of the HomeClub chain that he sold to Zayre, raised $7 million from the public last October before he opened the first store.

Office Club went public last December, raising $14 million for expansion.

Chain Restructurings Since January 1988

Acquisitions:

Acquiring Chain	Acquired Chain	Price (In Millions)	Number of Stores	Date
Northern Automotive	Auto Works	$ 33	252	January 1988
	U-Save Auto Parts	NA	8	February 1988
	Crown Auto	8	57	March 1988
F.W. Woolworth	Robby's Sporting Goods	NA	46	February 1988
Nationwise	Guarantee Auto	11	75	February 1988
K mart Corp.[1]	Makro	NA	4	March 1988
Sears, Roebuck & Co.	Western Auto	402	394	April 1988
International Semi-Tech (Far East)	Consumers Distributing (U.S.)	100	85	May 1988
Thrifty Corp.[2]	Cook's	NA	21	March 1988
	Casey's	NA	12	March 1988
	Pay 'n Save	232	148	June 1988
	Brown's	NA	19	November 1988
Dylex Ltd.[3]	NBO	86	28	June 1988
PACCAR Inc.	Grand Auto	49	107	June 1988
Riklis Family Corp.	Odd Lot Trading	37	103	October 1988
Adler & Shaykin	Best Products	1,100	194	October 1988
Ames Dept. Stores	Zayre Stores	800	388	October 1988
Ward White PLC	R&S Strauss	35	72	October 1988
H.C. Prange Co.[4]	Schultz Family Stores	NA	7	December 1988
Dabah Family[5]	The Children's Place	30	162	December 1988
Pic 'N' Save	Job Lot Trading	NA	15	December 1988
Penn Traffic[6]	Big Bear	350	98	March 1989

[1] K mart acquired a 51 percent controlling interest in Makro.

[2] Thrifty's acquisition of Pay 'n Save included 37 Bi-Mart discount stores and 111 Pay 'n Save drug stores. Brown's, Cook's and Casey's are sporting goods chains.

[3] Dylex Ltd. bought remaining 50 percent interest of NBO to complete acquisition.

[4] H.C. Prange converted all Schultz units to Prange Way stores.

[5] The Dabah family's acquisition of The Children's Place included the 41-unit The Accessory Place.

[6] Penn Traffic's acquisition of Big Bear included 31 Harts department stores, four Big Bear Plus hypermarkets and 63 Big Bear supermarkets.

Leveraged Buyouts, Initial Public Offerings, Spin-Offs:

Chain	Action	Price (In Millions)	Number of Stores	Date
Stop & Shop Cos.[1]	Management LBO	$1,192	282	March 1988
Chief Auto	Management LBO	130	475	April 1988
Jewelcor	Managment LBO	62	18	May 1988
Office Depot	Went Public	21	12	June 1988
Filene's Basement	Management LBO	NA	22	June 1988
Loehmann's	Investor-led LBO	170	77	July 1988
Montgomery Ward	Management LBO	3,800	323	August 1988
HQ Office Supplies Warehouse[2]	Went Public	7	0	October 1988
Office Club	Went Public	14	11	December 1988
Staples	Went Public	62	23	April 1989
Price Savers	Management LBO	NA	13	May 1989
Zayre Corp.[3]	Spun off BJ's Wholesale Club, HomeClub as Waban Inc.	508	71	June 1989

[1] Bradlees parent Stop & Shop Cos. includes 169 Bradlees and 113 Stop & Shop supermarkets. Stop & Shop sold 35 Bradlees stores to pay down LBO debt.

[2] HQ Office Supplies operated no stores when the company went public; it now runs five stores.

[3] Zayre Corp. changed its name in June 1989 to TJX Cos. and now operates only T.J. Maxx, Hit or Miss and Chadwick's of Boston. The value of the spin-off transaction was based on 28.3 million shares issued at first day trading price of $18 per share. Waban includes 22 BJ's Wholesale Clubs and 49 HomeClub home center warehouse clubs.

NA—not available

Source: *DSN* research

DISCOUNT INDUSTRY ANNUAL REPORT

Middle-Tier Discounters Struggle As Competition Squeezes Profits

(Continued from page 51)
N.C., has closed 22 of the 72 stores it was operating when it filed for Chapter 11 protection last October and plans to close six more for a new count of 44. It started 1988 with 89 units.

Heck's, Nitro, W.Va., expects to emerge from Chapter 11 bankruptcy in August now that a bankruptcy judge has approved its reorganization plan. But Heck's would emerge as a shadow of its former self, with 55 units, compared to a 1986 high of 168. And creditors would own 90 percent of the retailer. Moreover, it still must obtain an $8 million line of credit and liquidate its Maloney subsidiary.

Heck's reported a net loss of $44.9 million in the year ended Feb. 25, 1989, compared to a net loss of $27.7 million the previous year.

Other retailers, including S.E. Nichols, New York, are closing stores in efforts to restore profitability. Nichols announced plans to close at least eight money-losing stores and possibly three more, which would reduce store count to 30 from a 1987 high of 46. In addition, it sold its profitable Schreiber wholesale division to help improve cash flow.

Nichols posted a $3.5 million net loss on sales of $273.9 million in 1988 on top of a net loss of $1.9 million and sales of $301.8 million in 1987.

TSS (formerly TSS-Seedman's), Brooklyn, N.Y., also has downsized to 12 full-line stores and two home and auto stores by selling its six-store Puerto Rican division and closing two home and auto stores. It also is leasing excess space in its larger stores.

The example of Bradlees' store closings shows that it can be beneficial. After its parent, Stop & Shop Cos., went private last spring in a $1.2 billion leveraged buyout, its parent sold 35 Bradlees units in its Southern division to pay down LBO debt.

Subsequently, operating profits for the 131 remaining stores spurted 49 percent to $84.9 million in 1988 from $57 million in 1987. Operating profits had been sliding. Sales of $2.1 billion last year were essentially flat from 1987.

Despite operating profits for both Bradlees and its supermarket chain, the parent company, SSC Holdings Corp., posted a $21.5 million net loss in 1988, largely due to increased interest costs from the LBO.

In another indication of stress for regional chains, Caldor, Norwalk, Conn., Rose's Stores, Henderson, N.C., and Jamesway, Secaucus, N.J., all experienced declining operating income on higher sales in the past two to four years.

Based on results for the year to date, Caldor, however, anticipates that its four-year slide in operating profits has ended and expects to report an increase for 1989.

Many regionals do seem to be thriving, including ShopKo, Green Bay, Wis., Fred Meyer, Portland, Ore., and Meijer, Grand Rapids, Mich. Moreover, chains do manage to emerge from Chapter 11 and stay in business.

American Wholesale Club, Richardson, Texas, for example, closed two of four membership clubs before declaring Chapter 11 bankruptcy last July. It then closed a Dallas unit, but it emerged last December with a new investor and plans to add another unit.

Toy King, Orlando, Fla., also emerged from Chapter 11 in May after 10 months. Of 44 stores, 20 remain open, and it plans to add five new stores by year-end.

The Top 150: Academy to Zayre

Chain	1988 Rank	Chain	1988 Rank
Academy	124	Luskins	111
ALCO	60	L. Luria & Son	85
Alexander's	47	Makro	67
American TV	81	Mars	129
Ames	8	Marshalls	16
Ann & Hope	71	Maxway	141
Apex	142	Meijer	10
Arvey Paper	115	Modell's	135
Audio-Video Affiliates	88	Montgomery Ward	4
AutoZone	49	Nationwise	72
Bargain Town	143	NBO Stores	121
Best Buy	48	Newmark & Lewis	80
Best Products	13	Northern Automotive	37
Bigg's	102	Odd Job Trading	138
Bill's Dollar Stores	89	Office Club	146
Bi-Mart	64	Office Depot	109
BJ's Wholesale Club	30	One Price Clothing	139
Bradlees	12	Oshman's	62
Brendles	73	PACCAR	90
Brick Church	116	PACE	25
Building #19	127	Pamida	45
Burlington Coat	40	Pay Less NW	21
Buyer's Club	117	Pep Boys	38
Caldor	19	Pic 'N' Save	53
Carrefour	140	Prange Way	99
Chaffin	108	Price Club	5
Champs Sports	122	Price Savers	44
Chief Auto Parts	61	Quality Stores	96
Child World	29	Rich's	84
Circuit City	17	Rose's	22
Click	93	Ross Stores	42
Clothestime	95	Sam's	6
Clover	58	Service Merchandise	9
Club Wholesale	136	ShopKo	24
Consolidated Stores	43	Silo	28
Consumers Distributing	65	Sky City	105
Costco	15	Smitty's	39
Crazy Eddie	75	Sportmart	98
Dahlkemper's	128	Staples	112
David Weis	110	Stein Mart	114
Dollar General	46	Sterling Jewelry	132
Dress Barn	86	Stuarts	106
Evans	134	Super City	119
E.H. Tepe	150	Swallen's	100
Family Dollar	34	Syms	68
Fedco	36	S&K Famous Brands	145
Filene's Basement	66	S.E. Nichols	70
Fishers Big Wheel	51	Target	3
Fred Meyer	14	The Andersons	120
Fred Schmid	118	The Fair Company	125
Fretter	83	The Federated Group	76
Gee Bee	94	The Good Guys	103
Goldblatt	148	The Present Co.	131
Grandpa Pidgeon's	104	The Wholesale Club	54
Greenman Bros.	92	The Wiz	82
G.I. Joe's	113	Thrifty Corp.	41
Harts	87	Tops Appliances	59
Heck's	63	Toys "R" Us	7
Herman's	35	Trader Horn	107
Highland Superstores	27	Trak Auto	79
Hills	18	TSS	77
Hit or Miss	55	Tuesday Morning	126
Hypermart USA	69	T.J. Maxx	20
Jamesway	31	Value City	50
Jewelcor	149	Van Leunen's	133
K mart	1	Venture	23
K & K Toys	137	Wall to Wall Sound	101
Kay-Bee	32	Wal-Mart	2
Kids "R" Us	56	Warehouse Club	78
Kingsway	147	Western Auto	26
K's Merchandise	97	Whitlock	74
Laneco	123	Witmark	144
Lechmere	33	W. Bell	130
Lionel Leisure	52	Yellow Front	91
Loehmann's	57	Zayre	11

Source: DSN *research*

Who Owns Whom

K mart Corp.
K mart
Pay Less NW
Waldenbooks
Bargain Harolds
Makro
American Fare
Builders Square
Office Square
Sports Giant

Wal-Mart Stores
Wal-Mart
Sam's Wholesale Club
Hypermarket USA
dot Drug

Dayton Hudson
Target
Lechmere

Toys "R" Us
Toys "R" Us
Kids "R" Us

Ames
Ames
Zayre
Office Shop Warehouse
Crafts & More

SSC Holdings
Bradlees

Adler & Shaykin
Best Products

Melville Corp.
Marshalls
Meldisco
CVS
Freddy's
Kay-Bee Toys
Linens 'n Things

May Department Stores
Caldor
Venture

TJX Cos.
T.J. Maxx
Hit or Miss
Chadwick's of Boston

Riklis Family Corp.
McCrory Stores
Bargain Time
Odd Lot Trading

Super Valu
Shopko
Twin Valu

Sears, Roebuck & Co.
Western Auto

Waban Inc.
BJ's Wholesale Club

Gateway Corp.
Herman's
Sunset Sports

Trump Group
Northern Automotive
Auto Works
Checker
Crown
Kragen
Schuck's

Thrifty Corp.
Bi-Mart
Pay 'n Save
Big 5 Sporting Goods
Brown's
Casey's
Dave Cook Sports
Gart Bros. Sporting Goods
MC Sporting Goods

Steinberg Inc.
Smitty's

Schottenstein Stores
Value City
Valley Fair

Pic 'N' Save
Job Lot Trading

Lionel Leisure
Kiddie City
PlayWorld
Toy Warehouses

Strawbridge & Clothier
Clover

International Semi-Tech (Far East)
Consumers Distributing (U.S.)

Nationwise
Guarantee Auto

Sefinco Ltd.
Loehmann's

Ward White PLC
Whitlock Auto
R&S Strauss
Rose Auto

Entertainment Marketing
Crazy Eddie

Atari
The Federated Group

Pritzker Family
TSS
Finders Keepers

Dart Group
Trak Auto
Crown Books

Penn Traffic
Harts
Big Bear Plus

PACCAR Inc.
Grand Auto
Al's Auto Parts

Greenman Bros.
Circus World Toy Stores

Fred W. Albrecht
Click

H.C. Prange
Prange Way

Euromarché
Biggs

Interco Inc.
Sky City

Dylex Limited
NBO Stores

F.W. Woolworth
Champs Sports

Wetterau
Laneco

Carrefour PLC
Carrefour USA

Kindercare
Bargain Town USA
Simply Six
Max 10
Shoe City

Dabah Family Holding
Children's Place

Dixons, PLC
Silo

Wisconsin Toys
Toy Liquidators
Toys Unlimited

Auchan Group
Auchan

Source: DSN *research*

Sales Climb 16.2% at Top 10 Discounters

(Continued from page 51)
places to 30th from 38th.

The big ranking losers include: The Federated Group (a 42 percent sales decline), off 30 notches to 76th on the list; Crazy Eddie (20 percent sales fall off), dropping 18 places to 75th; Heck's (27 percent drop), off 15 notches to No. 63; Fretter (8 percent sales decline), off 14 notches to No. 83; S.E. Nichols (9 percent decline), down 11 places to 70th; Dollar General (sales off 3.7 percent), down 10 places to 46th; Clothestime (4.5 percent sales decrease), also off 10 places to 95th, and Audio-Video Affiliates (off 8 percent in sales), also dropping 10 notches to No. 88.

Completing the top 150, double-digit ranking gainers were: Office Depot (288 percent sales rise), up 37 notches to place 109th on the list; Staples (198 percent jump), rising 33 places to 112th; Champs Sports (105 percent sales rise), up 19 notches to 122nd, and Bigg's (50 percent sales increase), up 11 slots to 102nd place on the list.

This special report was researched and written by the entire *DSN* editorial staff. The Top 150 listing of discount chains was coordinated by senior editor Kenneth Chanko and associate editor Richard Halverson, under the direction of editor Tony Lisanti and executive editor Don Longo. Additional research and articles were contributed by senior editors Arthur Markowitz and Peter Hisey, and associate editors Mary Ellen Kelly and Pam Krein.

Design and production was handled by senior desk editor Martha Gioumousis, who also produced the tables, graphs and charts for this section, desk editors Michael Vickerman and Dawn Wilensky, graphic artist Karen Kikta and art director Bob Brokman.

DISCOUNT INDUSTRY ANNUAL REPORT

The Discount Industry's Top 150 Chains

Rank 1988	Rank 1987	Chain, Headquarters	Code	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Earnings (Loss) (In Millions) 1988	Earnings (Loss) (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90
1	1	**K mart,**[1] Troy, Mich.	DDS	$22,940	$22,241	3.1%	$1,436.0	$1,384.0	3.8%	2,105	2,145	2,200
2	2	**Wal-Mart,**[2] Bentonville, Ark.	DDS	16,820	13,248	27.0	1,325.0	1,068.0	24.1	1,114	1,259	1,414
3	3	**Target,** Minneapolis, Minn.	DDS	6,331	5,306	19.3	341.0	323.0	5.6	317	341	401
4	NR	**Montgomery Ward,**[3] Chicago, Ill.	DDS	4,784	4,639	3.1	130.0	139.0	(6.5)	316	324	350
5	5	**Price Club,** San Diego, Calif.	CLUB	4,053	3,236	25.2	156.6	139.7	12.1	37	41	47
6	9	**Sam's,** Bentonville, Ark.	CLUB	3,829	2,711	41.2	NA	NA	—	84	105	125
7	6	**Toys "R" Us,**[4] Rochelle Park, N.J.	TOY	3,645	2,887	26.3	428.8	345.9	24.0	350	410	467
8	10	**Ames,**[5] Rocky Hill, Conn.	DDS	3,363	2,112	59.2	47.2	34.2	38.0	488	820	866
9	8	**Service Merchandise,** Nashville, Tenn.	CAT	3,093	2,719	13.8	121.3	44.6	172.0	309	317	335
10	7	**Meijer,** Grand Rapids, Mich.	DDS	3,000	2,750	9.1	NA	NA	—	51	52	56
11	4	**Zayre,**[6] Framingham, Mass.	DDS	2,600	3,323	(21.8)	NA	(13.9)	—	382	0	0
12	12	**Bradlees,** Braintree, Mass.	DDS	2,107	2,064	2.1	84.9	57.0	48.9	130	131	130
13	11	**Best Products,** Richmond, Va.	CAT	2,088	2,067	1.0	NA	47.6	—	194	194	194
14	13	**Fred Meyer,** Portland, Ore.	DDS	2,074	1,848	12.2	57.0	54.0	5.6	99	112	122
15	17	**Costco,** Kirkland, Wash.	CLUB	1,989	1,370	45.2	31.1	10.8	188.0	43	50	62
16	14	**Marshalls,** Wakefield, Mass.	APP	1,753	1,603	9.4	NA	NA	—	286	309	335
17	18	**Circuit City,** Richmond, Va.	CE	1,721	1,350	27.5	114.5	89.2	28.4	105	125	145
18	15	**Hills,** Canton, Mass.	DDS	1,671	1,514	10.4	97.7	103.5	(5.6)	151	167	209
19	16	**Caldor,** Norwalk, Conn.	DDS	1,574	1,502	4.8	50.0	56.0	(10.7)	116	119	120
20	20	**T.J. Maxx,** Framingham, Mass.	APP	1,490	1,288	15.7	NA	NA	—	265	308	358
21	21	**Pay Less NW,** Wilsonville, Ore.	DRUG	1,450	1,200	20.8	58.0	48.0	20.8	259	269	299
22	19	**Rose's,** Henderson, N.C.	DDS	1,439	1,337	7.6	26.0	29.0	(10.3)	237	250	265
23	22	**Venture,** O'Fallon, Mo.	DDS	1,282	1,188	7.9	81.0	70.0	15.7	70	73	75
24	23	**ShopKo,** Green Bay, Wis.	DDS	1,280	1,072	19.4	76.0	61.0	24.6	75	87	99
25	24	**PACE,** Aurora, Colo.	CLUB	1,271	940	35.2	13.8	7.0	97.1	32	39	46
26	25	**Western Auto,**[7] Kansas City, Mo.	AUTO	1,107	931	18.9	NA	18.6	—	394	424	460
27	26	**Highland Superstores,** Taylor, Mich.	CE	911	753	21.0	18.9	17.7	6.8	72	84	97
28	30	**Silo,** Philadelphia, Pa.	CE	815	650	25.4	NA	NA	—	150	210	227
29	27	**Child World,**[8] Avon, Mass.	TOY	807	749	7.7	22.6	22.5	0.4	152	163	175
30	38	**BJ's Wholesale Club,** Natick, Mass.	CLUB	800	575	39.1	NA	NA	—	19	22	25
31	28	**Jamesway,** Secaucus, N.J.	DDS	783	701	11.7	15.6	20.5	(23.9)	111	121	131
32	34	**Kay-Bee,** Pittsfield, Mass.	TOY	780	610	27.9	NA	NA	—	676	727	797
33	32	**Lechmere,** Woburn, Mass.	DDS	769	636	20.9	22.0	23.0	(4.3)	24	27	29
34	39	**Family Dollar,** Charlotte, N.C.	DOLLAR	700	560	25.0	44.2	46.8	(5.6)	1,350	1,509	1,650
35	31	**Herman's,**[9] Carteret, N.J.	SPORT	700	640	9.4	NA	16.6	—	242	260	275
36	29	**Fedco,** Santa Fe Springs, Calif.	DDS	685	684	0.1	7.6	8.5	(10.6)	12	12	12
37	47	**Northern Automotive,**[10] Phoenix, Ariz.	AUTO	660	422	56.4	3.6	29.2	(87.7)	478	869	895
38	40	**Pep Boys,** Philadelphia, Pa.	AUTO	656	554	18.4	65.9	58.1	13.4	207	243	285
39	33	**Smitty's,**[11] Phoenix, Ariz.	DDS	640	615	4.1	NA	NA	—	19	20	21
40	43	**Burlington Coat,** Burlington, N.J.	APP	639	523	22.2	38.2	36.1	5.8	111	134	150
41	44	**Thrifty Corp.,**[12] Los Angeles, Calif.	SPORT	635	494	28.5	NA	NA	—	160	233	262
42	37	**Ross Stores,** Newark, Calif.	APP	634	576	10.1	36.9	18.9	95.2	131	140	158
43	35	**Consolidated Stores,**[13] Columbus, Ohio	CLOSE	627	590	6.3	41.6	27.3	52.4	295	308	335
44	60	**Price Savers,** Salt Lake City, Utah	CLUB	600	300	100.0	NA	NA	—	12	13	16
45	41	**Pamida,** Omaha, Neb.	DDS	568	526	8.0	8.7	3.7	135.1	165	165	172
46	36	**Dollar General,**[14] Scottsville, Ky.	DOLLAR	566	588	(3.7)	22.4	18.4	21.7	1,302	1,302	1,372
47	42	**Alexander's,** New York, N.Y.	DDS	525	523	0.4	(8.0)	2.2	—	14	13	11
48	45	**Best Buy,**[15] Minneapolis, Minn.	CE	507	439	15.5	2.1	2.8	(25.0)	40	41	51
49	49	**AutoZone,** Memphis, Tenn.	AUTO	440	384	14.6	NA	NA	—	396	441	501
50	52	**Value City,** Columbus, Ohio	DDS	424	353	20.1	NA	NA	—	42	45	56
51	51	**Fishers Big Wheel,** New Castle, Pa.	DDS	420	359	17.0	NA	NA	—	86	92	107
52	54	**Lionel Leisure,**[16] Philadelphia, Pa.	TOY	409	341	19.9	4.0	3.8	5.3	77	84	94
53	50	**Pic 'N' Save,**[17] Carson, Calif.	CLOSE	402	362	11.0	77.7	85.7	(9.3)	125	158	188
54	65	**The Wholesale Club,** Indianapolis, Ind.	CLUB	402	272	47.8	5.2	(0.5)	—	15	18	23
55	53	**Hit or Miss,** Framingham, Mass.	APP	370	348	6.3	NA	NA	—	485	506	551
56	70	**Kids "R" Us,** Rochelle Park, N.J.	APP	355	250	42.0	NA	NA	—	74	112	137
57	55	**Loehmann's,** Bronx, N.Y.	APP	334	351	(4.8)	1.5	NA	—	76	73	73
58	58	**Clover,** Philadelphia, Pa.	DDS	335	315	6.3	NA	NA	—	21	22	23
59	62	**Tops Appliances,** Edison, N.J.	CE	320	284	12.7	NA	NA	—	2	2	3
60	56	**ALCO,**[18] Abilene, Kan.	DDS	317	328	(3.4)	(5.9)	(1.5)	—	148	150	99
61	64	**Chief Auto Parts,** Dallas, Texas	AUTO	312	275	13.5	NA	NA	—	465	479	507
62	61	**Oshman's,**[19] Eastor., Texas	SPORT	305	284	7.4	7.8	5.7	36.8	186	193	200
63	48	**Heck's,**[20] Nitro, W.Va.	DDS	301	412	(26.9)	NA	(63.5)	—	118	75	55
64	74	**Bi-Mart,** Eugene, Ore.	DDS	300	240	25.0	NA	7.1	—	37	38	41
65	68	**Consumers Distributing,** Edison, N.J.	CAT	300	252	19.0	NA	NA	—	88	88	89
66	63	**Filene's Basement,**[21] Wellesley, Mass.	APP	300	278	7.9	NA	NA	—	22	22	24
67	71	**Makro,** Cincinnati, Ohio	CLUB	300	250	20.0	NA	NA	—	4	6	10
68	67	**Syms,** Lyndhurst, N.J.	APP	283	255	11.0	31.0	31.0	0.0	21	22	26
69	NR	**Hypermart USA,** Bentonville, Ark.	HYPER	275	0	ERR	NA	NA	—	1	3	3
70	59	**S.E. Nichols,** New York, N.Y.	DDS	274	302	(9.3)	(3.5)	(1.9)	—	42	41	30
71	66	**Ann & Hope,** Cumberland, R.I.	DDS	265	258	2.7	NA	NA	—	6	6	6
72	84	**Nationwise,**[22] Columbus, Ohio	AUTO	262	190	37.9	NA	NA	—	200	285	300
73	75	**Brendles,** Elkin, N.C.	CAT	261	228	14.5	2.4	6.8	(64.7)	42	40	46
74	95	**Whitlock,**[23] Des Plaines, Ill.	AUTO	260	150	73.3	NA	NA	—	162	252	288
75	57	**Crazy Eddie,** Edison, N.J.	CE	253	317	(20.2)	(50.1)	(109.0)	—	42	43	25

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Sales: *total store volume from apparel, general merchandise, groceries*
Earnings: *operating income (profit/loss from continuing operations, before taxes and extraordinary items)*
NA—not available
(NA)—unknown loss
NR—not ranked

[1] *K mart sales/store counts include discount stores only; earnings include Makro and specialty divisions.*
[2] *Wal-Mart sales/store counts include discount stores and SuperCenters; earnings include Sam's Wholesale Club and other divisions.*
[3] *Montgomery Ward is included for first time based on the retailer's shift to an everyday low price/specialty store-within-a-store strategy in 1987.*
[4] *Toys "R" Us includes domestic and foreign toy stores only; earnings also include Kids "R" Us.*
[5] *Ames' 1988 sales include $1.05 billion of Zayre discount store sales in the fourth quarter; store counts include Zayre acquisition in 1988.*
[6] *Zayre's 1988 sales are estimated through third quarter. Discount stores were acquired by Ames in September 1988.*
[7] *Western Auto sales include: company-owned units, Tire America and NTW tire stores, and wholesale revenues from supplying associate stores (associate stores are not included in store count).*
[8] *Child World includes Child World and Children's Palace chains.*
[9] *Herman's include Sunset Sports chain.*
[10] *Northern Automotive includes Schuck's, Checker, Kragen, Auto Works and Crown chains; fiscal year ended Nov. 7, 1988.*
[11] *Smitty's figures exclude three food-only stores.*
[12] *Thrifty includes Big 5, MC Sporting Goods, Gart Bros., Browns, Dave Cook's Sporting Goods and Mages chains.*
[13] *Consolidated Stores includes 1988 wholesale sales of $25.6 million.*
[14] *Dollar General figures adjusted to reflect 12-month period ended Dec. 31. Company's new fiscal year ends Jan. 31.*
[15] *Best Buy earnings are net.*
[16] *Lionel Leisure includes Kiddie City, Playworld and Toy Warehouses chains.*
[17] *Pic 'N' Save includes Job-Lot Trading, acquired December 1988.*
[18] *ALCO is in Chapter 11.*
[19] *Oshman's includes Oshman's Honsport and SuperSports USA chains; 1987 earnings include Abercrombie & Fitch, which was sold in February 1988.*
[20] *Heck's is in Chapter 11.*
[21] *Filene's Basement became a private company in 1988.*
[22] *Nationwise includes Guarantee Auto ($52 mil. in sales in 1988), acquired in February 1988; its fiscal year ended Nov. 7, 1988.*
[23] *Whitlock includes R&S Strauss, Whitlock and Rose Auto chains in 1988; excludes R&S Strauss sales of $72 million in 1987.*

Source: DSN research

DISCOUNT INDUSTRY ANNUAL REPORT

The Discount Industry's Top 150 Chains

Rank 1988	Rank 1987	Chain, Headquarters	Code	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Earnings (Loss) (In Millions) 1988	Earnings (Loss) (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90
76	46	**The Federated Group,** Sunnyvale, Calif.	CE	$ 253	$ 437	(42.1%)	(NA)	NA	—	65	61	0
77	72	**TSS,**[1] Brooklyn, N.Y.	DDS	250	250	0.0	NA	NA	—	22	14	14
78	76	**Warehouse Club,** Skokie, Ill.	CLUB	249	228	9.2	($5.9)	($5.0)	—	12	12	12
79	79	**Trak Auto,** Landover, Md.	AUTO	243	212	14.6	4.6	8.3	(44.6%)	245	274	300
80	73	**Newmark & Lewis,** Hicksville, N.Y.	CE	238	242	(1.7)	4.6	(2.5)	—	46	52	57
81	82	**American TV,** Madison, Wis.	CE	235	199	18.1	NA	NA	—	6	7	7
82	77	**The Wiz,** New York, N.Y.	CE	235	218	7.8	NA	NA	—	24	26	28
83	69	**Fretter,**[2] Livonia, Mich.	CE	231	250	(7.6)	1.3	1.4	(7.1)	47	54	60
84	81	**Rich's,** Salem, Mass.	DDS	230	205	12.2	NA	6.0	—	21	21	21
85	80	**L. Luria & Son,** Miami Lakes, Fla.	CAT	216	205	5.4	8.0	11.3	(29.2)	43	47	49
86	86	**Dress Barn,**[3] Stamford, Conn.	APP	204	174	17.2	25.4	24.4	4.1	302	378	440
87	83	**Harts,**[4] Columbus, Ohio	DDS	204	192	6.3	7.0	9.1	(23.1)	29	33	33
88	78	**Audio-Video Affiliates,** Dayton, Ohio	CE	196	212	(7.5)	4.9	6.5	(24.6)	114	125	130
89	88	**Bill's Dollar Stores,** Jackson, Miss.	DOLLAR	191	164	16.5	NA	NA	—	340	400	500
90	87	**PACCAR,**[5] Renton, Wash.	AUTO	190	173	9.8	NA	NA	—	131	135	145
91	96	**Yellow Front,** Phoenix, Ariz.	DDS	185	149	24.2	NA	9.3	—	171	155	169
92	92	**Greenman Bros.,**[6] Farmingdale, N.Y.	TOY	177	154	14.9	5.0	(4.5)	—	321	326	338
93	90	**Click,** Akron, Ohio	DDS	175	160	9.4	NA	NA	—	9	9	9
94	89	**Gee Bee,**[7] Johnstown, Pa.	DDS	175	163	7.4	NA	1.6	—	22	24	20
95	85	**Clothestime,** Anaheim, Calif.	APP	171	179	(4.5)	(4.8)	11.5	—	338	335	335
96	91	**Quality Stores,** N. Muskegon, Mich.	DDS	166	155	7.1	NA	NA	—	45	51	60
97	97	**K's Merchandise,** Decatur, Ill.	CAT	165	147	12.2	NA	NA	—	11	11	12
98	94	**Sportmart,** Niles, Ill.	SPORT	165	150	10.0	NA	NA	—	18	21	24
99	93	**Prange Way,** Green Bay, Wis.	DDS	160	150	6.7	NA	NA	—	20	25	25
100	98	**Swallen's,** Cincinnati, Ohio	DDS	158	147	7.5	NA	NA	—	9	9	9
101	103	**Wall to Wall Sound,** Cinnaminson, N.J.	CE	152	132	15.2	NA	NA	—	107	107	107
102	113	**Bigg's,** Cincinnati, Ohio	HYPER	150	100	50.0	NA	NA	—	1	3	4
103	107	**The Good Guys,**[8] San Francisco, Calif.	CE	149	120	24.2	5.4	4.9	10.2	15	18	22
104	106	**Grandpa Pidgeon's,** Bridgeton, Mo.	DDS	140	120	16.7	NA	NA	—	7	8	9
105	99	**Sky City,** Asheville, N.C.	DDS	140	145	(3.4)	NA	NA	—	72	66	66
106	100	**Stuarts,** Hopkinton, Mass.	DDS	140	140	0.0	0.8	0.3	166.7	20	21	23
107	101	**Trader Horn,** Hasbrouck Heights, N.J.	CE	140	140	0.0	NA	NA	—	15	16	16
108	102	**Chaffin,** Dodge City, Kan.	DDS	135	135	0.0	NA	NA	—	33	32	32
109	146	**Office Depot,** Boca Raton, Fla.	OFFICE	132	34	288.2	3.9	(2.3)	—	10	26	55
110	105	**David Weis,** Monroeville, Pa.	CAT	130	125	4.0	NA	NA	—	17	17	18
111	104	**Luskins,** Baltimore, Md.	CE	123	127	(3.1)	(0.0)	(3.1)	—	44	45	46
112	145	**Staples,** Newton, Mass.	OFFICE	120	40	200.0	(1.9)	(8.5)	—	9	22	38
113	111	**G.I. Joe's,** Wilsonville, Ore.	DDS	115	105	9.5	NA	NA	—	11	11	11
114	118	**Stein Mart,** Jacksonville, Fla.	DDS	115	93	23.7	NA	2.5	—	24	28	32
115	112	**Arvey Paper,** Chicago, Ill.	OFFICE	100	100	0.0	NA	NA	—	34	36	40
116	114	**Brick Church,** Orange, N.J.	CE	100	100	0.0	NA	NA	—	22	40	40
117	115	**Buyer's Club,** Englewood, Colo.	CLUB	100	100	0.0	NA	NA	—	4	4	3
118	117	**Fred Schmid,** Denver, Colo.	CE	100	93	7.5	NA	NA	—	17	19	16
119	116	**Super City,** Tucson, Ariz.	OFFICE	100	100	0.0	NA	NA	—	17	16	16
120	122	**The Andersons,** Maumee, Ohio	DDS	100	80	25.0	NA	NA	—	5	6	6
121	120	**NBO Stores,** Secaucus, N.J.	APP	96	86	11.6	NA	NA	—	34	NA	NA
122	141	**Champs Sports,** Bradenton, Fla.	SPORT	88	43	104.7	NA	NA	—	43	130	184
123	121	**Laneco,**[9] Palmer, Pa.	DDS	85	80	6.3	NA	NA	—	13	13	14
124	131	**Academy,** Houston, Texas	SPORT	82	64	28.1	NA	NA	—	23	24	27
125	125	**The Fair Company,** Worcester, Mass.	DDS	82	75	9.3	NA	NA	—	7	8	8
126	128	**Tuesday Morning,** Dallas, Texas	CLOSE	82	73	12.3	5.3	6.7	(20.9)	85	101	113
127	127	**Building #19,** Hingham, Mass.	CLOSE	80	73	9.6	NA	NA	—	9	9	10
128	129	**Dahlkemper's,** Erie, Pa.	CAT	80	70	14.3	NA	NA	—	9	8	9
129	110	**Mars,**[10] North Dighton, Mass.	DDS	80	107	(25.2)	(8.4)	(7.2)	—	18	14	0
130	108	**W. Bell,**[11] Rockville, Md.	CAT	79	117	(32.5)	2.6	1.2	116.7	18	18	19
131	130	**The Present Co.,** Rochester, N.Y.	CAT	77	66	16.7	NA	NA	—	21	24	25
132	124	**Sterling Jewelry,** Dallas, Texas	CAT	75	75	0.0	NA	NA	—	5	5	5
133	126	**Van Leunen's,** Cincinnati	DDS	75	75	0.0	NA	NA	—	7	7	7
134	133	**Evans,** Rockville, Md.	CAT	72	55	30.9	NA	NA	—	6	9	12
135	132	**Modell's,** East Meadow, N.Y.	SPORT	71	63	12.7	NA	NA	—	22	28	33
136	123	**Club Wholesale,** Meridian, Idaho	CLUB	65	75	(13.3)	NA	NA	—	5	5	8
137	134	**K & K Toys,** Norfolk, Va.	TOY	65	55	18.2	NA	NA	—	109	119	130
138	135	**Odd Job Trading,** New York, N.Y.	CLOSE	65	55	18.2	NA	NA	—	7	16	16
139	144	**One Price Clothing,** Duncan, S.C.	APP	64	41	56.1	6.2	4.8	29.2	95	155	215
140	NR	**Carrefour,** Philadelphia, Pa.	HYPER	60	0	ERR	(NA)		—	1	1	1
141	119	**Maxway,**[12] Sanford, N.C.	DDS	59	88	(33.0)	NA	(4.4)	—	72	50	44
142	138	**Apex,** Pawtucket, R.I.	DDS	55	45	22.2	NA	NA	—	3	3	3
143	143	**Bargain Town,**[13] Montgomery, Ala.	DOLLAR	55	42	31.0	NA	NA	—	58	60	60
144	137	**Witmark,** Grand Rapids, Mich.	CAT	53	50	6.0	NA	NA	—	8	8	9
145	142	**S&K Famous Brands,** Richmond, Va.	APP	52	43	20.9	1.0	0.9	17.6	59	74	99
146	147	**Office Club,** Concord, Calif.	OFFICE	51	11	363.6	(3.3)	(2.6)	—	5	15	28
147	136	**Kingsway,** Detroit, Mich.	DDS	50	50	0.0	NA	NA	—	3	3	3
148	140	**Goldblatt,** Chicago, Ill.	DDS	48	45	6.7	3.4	3.4	0.0	10	10	12
149	109	**Jewelcor,** Wilkes Barre, Pa.	CAT	47	112	(58.0)	NA	(3.8)	—	15	9	6
150	139	**E.H. Tepe,** South Bend, Ind.	CAT	46	45	2.2	NA	NA	—	10	10	10
		Top 10 Totals and Averages:		$ 71,858	$ 61,849	16.2%	$3,985.9	$3,478.4	14.6%	5,171	5,814	6,261
		Top 25 Totals and Averages:		$ 97,647	$ 85,515	14.2%	$4,675.9	$4,097.6	14.1%	7,615	8,047	8,720
		Top 50 Totals and Averages:		$114,625	$99,891	14.8%	$5,018.2	$4,468.5	12.3%	14,189	15,573	16,883
		Top 100 Totals and Averages:		$127,602	$111,707	14.2%	$5,138.4	$4,509.6	13.9%	19,145	20,988	22,628
		Top 150 Totals and Averages:		**$132,122**	**$115,715**	**14.2%**	**$5,153.4**	**$4,502.4**	**14.5%**	**20,409**	**22,465**	**24,338**

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Sales: *total store volume from apparel, general merchandise, groceries*
Earnings: *operating income (profit/loss from continuing operations, before taxes and extraordinary items)*
NA—not available
(NA)—unknown loss
NR—not ranked
[1]TSS sales include 17 Finders Keepers off-price apparel stores; store count is for full-line stores only.
[2]Fretter earnings are net.
[3]Dress Barn: fiscal year ended July 30, 1988.
[4]Harts includes four Big Bear Plus units but excludes Big Bear supermarket chain; figures are for fiscal year ended Aug. 27, 1988.
[5]PACCAR includes Al's Auto Supply and Grand Auto chains.
[6]Greenman Bros. includes Circus World and PlayWorld chains.
[7]Gee Bee's parent, Glosser Bros. is in Chapter 11; sales are consolidated sales for Gee Bee discount stores and Dollar Bargain closeout chain; store count is Gee Bee only.
[8]The Good Guys: fiscal year ended Sept. 30, 1988.
[9]Laneco includes combo stores only; excludes supermarkets and two full-price department stores.
[10]Mars is in liquidation.
[11]W. Bell 1988 sales are for a seven-month fiscal year following the change to a January ending date from June.
[12]Maxway is in Chapter 11.
[13]Bargain Town sales include Bargain Town dollar stores and approximately 40 Simply Six one-price apparel units.

Source: DSN *research*

DISCOUNT INDUSTRY ANNUAL REPORT

Leading Discount Chains: The Big Get Bigger

The big got bigger in 1988, as the leading chains in the discount department store, catalog showroom, membership warehouse club, dollar store and specialty chain industries widened their lead over the smaller chains.

The ultimate measure of dominance in retailing—the bottom line—marked K mart, Wal-Mart and Target as the continued leaders among full-line discounters.

Service Merchandise, which enjoyed a tremendous turnaround year during 1988, was the sole cataloger to make the top profits list.

Similarly Price Club remained the only warehouse club among those that release earnings results to rank among the top profit generating companies.

Among dollar chain operators, Family Dollar was the only one to rank among the top 20 profit leaders. Two years ago, this chain switched from a promotional to an everyday low price strategy, which initially had a negative impact on income.

Toys "R" Us, Circuit City and Pep Boys were unrivaled specialty operators in their respective fields, outdistancing competitors in profits. The power and growth momentum of these chains threatens the existence of competitors who share common markets.

Two closeout chains among the top profit leaders will need to secure market share if they are to continue to flourish following the consolidations going on within this industry.

McCrory Stores, which bought the Odd Lot closeout chain earlier this year, plans to convert those units into McCrory variety stores. At the same time, McCrory is planning the conversion of 200 former TG&Y stores to Bargain Time closeout operations by year-end. An aggressive store agenda opening by Bargain Time could jeopardize the hold that Pic 'N' Save and Consolidated Stores have on the closeout industry.

While K mart remained the chain with the most stores, the dollar store operators are quickly catching up. Family Dollar and Dollar General are nearly neck-and-neck now for the No. 2 spot, but by next year, Wal-Mart is estimated to bring its store count above Dollar General's. Family Dollar is expected to maintain a strong hold on the No. 2 position.

The majority of the chains with the highest store counts are specialty stores, but these units are small. The relatively large size of discount department stores put them ahead of most other retailers when it comes to selling space.

Sales Volume Leaders

Chain	Code	Sales (In Millions) 1988	1987	1986	Percent Change '87-'88
K mart	DDS	$22,940	$22,241	$21,308	3.1%
Wal-Mart	DDS	16,820	13,248	10,200	27.0
Target	DDS	6,331	5,306	4,355	19.3
Montgomery Ward	DDS	4,784	4,639	4,383	3.1
Price Club	CLUB	4,053	3,236	2,667	25.2
Sam's	CLUB	3,829	2,711	1,678	41.2
Toys "R" Us	TOY	3,645	2,887	2,320	26.3
Ames	DDS	3,363	2,112	1,888	59.2
Service Merchandise	CAT	3,093	2,719	2,527	13.8
Meijer	DDS	3,000	2,750	2,310	9.1
Zayre	DDS	2,600	3,323	3,046	(21.8)
Bradlees	DDS	2,107	2,064	1,873	2.1
Best Products	CAT	2,088	2,067	2,142	1.0
Fred Meyer	DDS	2,074	1,848	1,688	12.2
Costco	CLUB	1,989	1,370	747	45.2
Marshalls	APP	1,753	1,603	1,409	9.4
Circuit City	CE	1,721	1,350	1,011	27.5
Hills	DDS	1,671	1,514	1,343	10.4
Caldor	DDS	1,574	1,502	1,348	4.8
T.J. Maxx	APP	1,490	1,288	1,395	15.7

Source: DSN *research*

Selling Space Leaders

Chain	Code	Number of Stores 1/89	Proj. 1/90	Average Store Size (In 000 (Sq. Ft.)	Total Footage (In 000 Sq. Ft.)
K mart	DDS	2,145	2,200	58	124,410
Wal-Mart	DDS	1,259	1,414	80	100,720
Ames	DDS	820	866	64	52,644
Target	DDS	341	401	100	34,100
Montgomery Ward	DDS	324	350	80	25,920
Toys "R" Us	TOY	410	467	46	18,860
Service Merchandise	CAT	317	335	55	17,435
Hills	DDS	167	209	80	13,360
Best Products	CAT	194	194	65	12,610
Fred Meyer	DDS	112	122	105	11,760
Family Dollar	DOLLAR	1,509	1,650	7	10,563
Rose's	DDS	250	265	42	10,500
Sam's	CLUB	105	125	100	10,500
Caldor	DDS	119	120	82	9,758
Bradlees	DDS	131	130	72	9,432
Meijer	DDS	52	56	180	9,360
Marshalls	APP	309	335	28	8,652
Consolidated Stores	CLOSE	308	335	28	8,624
Pay Less NW	DRUG	269	299	31	8,339
Dollar General	DOLLAR	1,302	1,372	6	7,421

Source: DSN *research*

Store Count Leaders

Chain	Code	Number of Stores 1/87	1/88	1/89	Proj. 1/90
K mart	DDS	2,204	2,105	2,145	2,200
Family Dollar	DOLLAR	1,107	1,350	1,509	1,650
Dollar General	DOLLAR	1,339	1,302	1,302	1,372
Wal-Mart	DDS	980	1,114	1,259	1,414
Northern Automotive	AUTO	474	478	869	895
Ames	DDS	463	488	820	866
Kay-Bee	TOY	639	676	727	797
Hit or Miss	APP	461	485	506	551
Chief Auto Parts	AUTO	485	465	479	507
AutoZone	AUTO	386	396	441	501
Western Auto	AUTO	NA	394	424	460
Toys "R" Us	TOY	295	350	410	467
Bill's Dollar Stores	DOLLAR	NA	340	400	500
Dress Barn	APP	235	302	378	440
Target	DDS	246	317	341	401
Clothestime	APP	263	338	335	335
Greenman Bros.	TOY	310	321	326	338
Montgomery Ward	DDS	295	316	324	350
Service Merchandise	CAT	300	309	317	335
Marshalls	APP	261	286	309	335

NA—not available

Source: DSN *research*

Profit Leaders

Chain	Code	Sales (In Mils.) 1988	Earnings* (Loss) (In Millions) 1988	1987	Earnings Percent Change
K mart	DDS	$22,940	$1,436.0	$1,384.0	3.8%
Wal-Mart[1]	DDS	16,820	1,325.0	1,068.0	24.1
Toys "R" Us[2]	TOY	3,645	428.8	345.9	24.0
Target	DDS	6,331	341.0	323.0	5.6
Price Club	CLUB	4,053	156.6	139.7	12.1
Montgomery Ward	DDS	4,784	130.0	139.0	(6.5)
Service Merchandise	CAT	3,093	121.3	44.6	172.0
Circuit City	CE	1,721	114.5	89.2	28.4
Hills	DDS	1,671	97.7	103.5	(5.6)
Bradlees	DDS	2,107	84.9	57.0	48.9
Venture	DDS	1,282	81.0	70.0	15.7
Pic 'N' Save	CLOSE	402	77.7	85.7	(9.3)
ShopKo	DDS	1,280	76.0	61.0	24.6
Pep Boys	AUTO	656	65.9	58.1	13.4
Pay Less NW	DRUG	1,450	58.0	48.0	20.8
Fred Meyer	DDS	2,074	57.0	54.0	5.6
Caldor	DDS	1,574	50.0	56.0	(10.7)
Ames	DDS	3,363	47.2	34.2	38.0
Family Dollar	DOLLAR	700	44.2	46.8	(5.6)
Consolidated Stores	CLOSE	627	41.6	27.3	52.4

**Earnings represent profit/loss from continuing operations, before taxes and extraordinary items.*
[1]Wal-Mart earnings includes Sam's Wholesale Club.
[2]Toys "R" Us earnings includes Kids "R" Us.

Source: DSN *research*

DISCOUNT INDUSTRY ANNUAL REPORT

The Fastest Growing Discount Chains

As could be expected, new retailing concepts, like office supply megastore chains, are liberally represented among the discount industry's growth leaders. Less expected is the omnipresence of Wal-Mart in these rankings.

As the retail industry continues to watch the "mature" discount department store, Wal-Mart persists in proving that the market can be vital and growing.

Double-digit sales and earnings growth rates combined with triple-digit store count growth sets this powerhouse apart and forces other retailers to ask themselves, "if they can do it, why can't we?"

Wal-Mart left everyone else in the dust in terms of dollar earnings growth last year. The discount department store giant reported a $257 million surge in earnings. The next nearest contender for earnings growth was Toys "R" Us, which gained $82.9 million over 1987 earnings.

In addition to Wal-Mart, the list of top chains in percentage sales growth includes many small companies that are likely to impact the industry in the next few years—provided they are able grow fast enough to withstand intense competition, but not so fast that they are unable to digest their own expansion.

Six of the top chains in dollar sales growth were membership warehouse clubs. Despite the relatively low growth rate of their store count, each opening represents huge gains in volume.

While discount department stores accounted for only seven of the firms listed on the sales growth chart, the top two retailers in this ranking were discounters.

Among specialty stores each industry was represented, usually by just the single dominant player in each category. Toys "R" Us, Circuit City, Northern Automotive and T.J. Maxx led their respective industries as top sales growth generators.

The two leading chains in store count growth achieved this distinction through major acquisitions: Northern Automotive by its purchase of Auto Works and Crown Auto, and Ames Department Stores by acquiring Zayre Stores.

Most of the other chains that comprise the top 20 listed in store count growth are either younger chains in a high growth mode, or industry leaders who continue to snowball in strength and momentum each year.

Once again, the notable exception is Wal-Mart, which generates tremendous growth on a huge base.

Top Chains in Dollar Sales Growth

Chain	Code	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Sales Growth (In Millions)
Wal-Mart	DDS	$16,820	$13,248	27.0%	$3,572
Ames	DDS	3,363	2,112	59.2	1,251
Sam's	CLUB	3,829	2,711	41.2	1,118
Target	DDS	6,331	5,306	19.3	1,025
Price Club	CLUB	4,053	3,236	25.2	817
Toys "R" Us	TOY	3,645	2,887	26.3	758
K mart	DDS	22,940	22,241	3.1	699
Costco	CLUB	1,989	1,370	45.2	619
Service Merchandise	CAT	3,093	2,719	13.8	374
Circuit City	CE	1,721	1,350	27.5	371
PACE	CLUB	1,271	940	35.2	331
Price Savers	CLUB	600	300	100.0	300
Hypermart USA	HYPER	275	0	—	275
Meijer	DDS	3,000	2,750	9.1	250
Pay Less NW	DRUG	1,450	1,200	20.8	250
Northern Automotive	AUTO	660	422	56.4	238
Fred Meyer	DDS	2,074	1,848	12.2	226
BJ's Wholesale Club	CLUB	800	575	39.1	225
ShopKo	DDS	1,280	1,072	19.4	208
T.J. Maxx	APP	1,490	1,288	15.7	202

Source: DSN research

Top Chains in Percentage Sales Growth

Chain	Code	Sales (In Millions) 1988	Sales (In Millions) 1987	Sales (In Millions) 1986	Percent Change '87-'88
Office Depot	OFFICE	$ 132	$ 34	NA	288.2%
Staples	OFFICE	119	40	NA	197.5
Price Savers	CLUB	600	300	174	100.0
Whitlock	AUTO	260	150	139	73.3
Ames	DDS	3,363	2,112	1,888	59.2
Northern Automotive	AUTO	660	422	485	56.4
Bigg's	HYPER	150	100	NA	50.0
The Wholesale Club	CLUB	402	272	158	47.8
Costco	CLUB	1,989	1,370	747	45.2
Kids "R" Us	APP	355	250	125	42.0
Sam's	CLUB	3,829	2,711	1,678	41.2
BJ's Wholesale Club	CLUB	800	575	350	39.1
Nationwise	AUTO	262	190	200	37.9
PACE	CLUB	1,271	940	595	35.2
Thrifty Corp.	SPORT	635	494	359	28.5
Kay-Bee	TOY	780	610	487	27.9
Circuit City	CE	1,721	1,350	1,011	27.5
Wal-Mart	DDS	16,820	13,248	10,200	27.0
Toys "R" Us	TOY	3,645	2,887	2,320	26.3
Silo	CE	815	650	600	25.4

Minimum $100 million in 1988 sales
NA—not available
Source: DSN research

Top Chains in Store Count Growth

Chain	Code	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Number of New Stores in 1988
Northern Automotive	AUTO	478	869	895	391
Ames	DDS	488	820	866	332
Family Dollar	DOLLAR	1,350	1,509	1,650	159
Wal-Mart	DDS	1,114	1,259	1,414	145
Whitlock	AUTO	162	252	288	90
Champs Sports	SPORT	43	130	184	87
Nationwise	AUTO	200	285	300	85
Dress Barn	APP	302	378	440	76
Thrifty Corp.	SPORT	160	233	262	73
Bill's Dollar Stores	DOLLAR	340	400	500	60
One Price Clothing Stores	APP	95	155	215	60
Silo	CE	150	210	227	60
Toys "R" Us	TOY	350	410	467	60
Kay-Bee	TOY	676	727	797	51
AutoZone	AUTO	396	441	501	45
T.J. Maxx	APP	265	308	358	43
K mart	DDS	2,105	2,145	2,200	40
Kids "R" Us	APP	74	112	137	38
Only a Dollar	DOLLAR	21	58	100	37
Pep Boys	AUTO	207	243	285	36

Source: DSN research

Top Chains in Dollar Earnings Growth

Chain	Code	Earnings* (Loss) (In Millions) 1988	Earnings* (Loss) (In Millions) 1987	Percent Change	Earnings Growth (In Millions)
Wal-Mart	DDS	$1,325.0	$1,068.0	24.1%	$257.0
Toys "R" Us	TOY	428.8	345.9	24.0	82.9
Service Merchandise	CAT	121.3	44.6	172.0	76.7
K mart	DDS	1,436.0	1,384.0	3.8	52.0
Bradlees	DDS	84.9	57.0	48.9	27.9
Circuit City	CE	114.5	89.2	28.4	25.3
Costco	CLUB	31.1	10.8	188	20.3
Ross Stores	APP	36.9	18.9	95.2	18.0
Target	DDS	341.0	323.0	5.6	18.0
Price Club	CLUB	156.6	139.7	12.1	16.9
ShopKo	DDS	76.0	61.0	24.6	15.0
Consolidated Stores	CLOSE	41.6	27.3	52.4	14.3
Ames	DDS	47.2	34.2	38.0	13.0
Venture	DDS	81.0	70.0	15.7	11.0
Pay Less NW	DRUG	58.0	48.0	20.8	10.0
Greenman Bros.	TOY	5.0	(4.4)	—	9.4
Pep Boys	AUTO	65.9	58.1	13.4	7.8
Newmark & Lewis	CE	4.6	(2.5)	—	7.1
PACE	CLUB	13.8	7.0	97.1	6.8
Office Depot	OFFICE	3.9	(2.3)	—	6.2

**Earnings represent profit/loss from continuing operations, before taxes and extraordinary items.*
Source: DSN research

Top Full-Line Discount Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
K mart[1] Troy, Mich.	$22,940	$22,241	3.1%	2,105	2,145	2,200	58,000
Wal-Mart[2] Bentonville, Ark.	16,820	13,248	27.0	1,114	1,259	1,414	80,000
Target Minneapolis, Minn.	6,331	5,306	19.3	317	341	401	100,000
Montgomery Ward[3] Chicago, Ill.	4,784	4,639	3.1	316	324	350	80,000
Ames[4] Rocky Hill, Conn.	3,363	2,112	59.2	488	820	866	64,000
Meijer Grand Rapids, Mich.	3,000	2,750	9.1	52	52	56	180,000
Zayre[5] Framingham, Mass.	2,600	3,323	(21.8)	382	0	0	70,000
Bradlees Braintree, Mass.	2,107	2,064	2.1	130	131	130	72,000
Fred Meyer Portland, Ore.	2,074	1,848	12.2	99	112	122	105,000
Hills Canton, Mass.	1,671	1,514	10.4	151	167	209	80,000
Caldor Norwalk, Conn.	1,574	1,502	4.8	116	119	120	82,000
Rose's Henderson, N.C.	1,439	1,337	7.6	237	250	265	42,000
Venture O'Fallon, Mo.	1,282	1,188	7.9	70	73	75	83,000
ShopKo Green Bay, Wis.	1,280	1,072	19.4	75	87	99	70,000
Jamesway Secaucus, N.J.	783	701	11.7	111	121	131	57,000
Lechmere Woburn, Mass.	769	636	20.9	24	27	29	75,000
Fedco Santa Fe Springs, Calif.	685	684	0.1	12	12	12	180,000
Smitty's[6] Phoenix, Ariz.	640	615	4.1	19	20	21	100,000
Pamida Omaha, Neb.	568	526	8.0	165	165	172	25,000
Alexander's New York, N.Y.	525	523	0.4	14	13	11	250,000
Value City Columbus, Ohio	424	353	20.1	42	45	56	80,000
Fishers Big Wheel New Castle, Pa.	420	359	17.0	86	92	107	45,000
Clover Philadelphia, Pa.	335	315	6.3	21	22	23	85,000
ALCO[7] Abilene, Kan.	317	328	(3.4)	148	150	99	35,000
Heck's[8] Nitro, W.Va.	301	412	(26.9)	118	75	55	40,000
Bi-Mart Eugene, Ore.	300	240	25.0	37	38	41	30,000
S.E. Nichols New York, N.Y.	274	302	(9.3)	42	41	30	87,000
Ann & Hope Cumberland, R.I.	265	258	2.7	6	6	6	180,000
TSS[9] Brooklyn, N.Y.	250	250	0.0	22	14	14	150,000
Rich's Salem, Mass.	230	205	12.2	21	21	21	60,000
Harts[10] Columbus, Ohio	204	192	6.3	29	33	33	68,000
Yellow Front Phoenix, Ariz.	185	149	24.2	171	155	169	12,000
Gee Bee[11] Johnstown, Pa.	175	163	7.4	22	24	20	72,000
Click Akron, Ohio	175	160	9.4	9	9	9	115,000
Quality Stores N. Muskegon, Mich.	166	155	7.1	45	51	60	20,000
Prange Way Green Bay, Wis.	160	150	6.7	20	25	25	65,000
Swallen's Cincinnati, Ohio	158	147	7.5	9	9	9	135,000
Grandpa Pidgeon's Bridgeton, Mo.	140	120	16.7	7	8	9	72,000
Stuarts Hopkinton, Mass.	140	140	0.0	20	21	23	60,000
Sky City Asheville, N.C.	140	145	(3.4)	72	66	66	40,000
Chaffin Dodge City, Kan.	135	135	0.0	33	32	32	39,000
Stein Mart Jacksonville, Fla.	115	93	23.7	24	28	32	40,000
G.I. Joe's Wilsonville, Ore.	115	105	9.5	11	11	11	58,000
The Andersons Maumee, Ohio	100	80	25.0	5	6	6	108,000
Laneco[12] Palmer, Pa.	85	80	6.3	13	13	14	83,000
The Fair Company Worcester, Mass.	82	75	9.3	7	8	8	80,000
Mars[13] North Dighton, Mass.	80	107	(25.2)	18	14	0	50,000
Van Leunen's Cincinnati, Ohio	75	75	0.0	7	7	7	75,000
Maxway[14] Sanford, N.C.	59	88	(33.0)	72	50	44	19,000
Apex Pawtucket, R.I.	55	45	22.2	3	3	3	130,000
Kingsway Detroit, Mich.	50	50	0.0	3	3	3	100,000
Goldblatt Department Stores Chicago, Ill.	48	45	6.7	10	10	12	50,000
Magic Mart Bluefield, Va.	40	40	0.0	13	15	16	40,000
Total:	$61,033	$73,390	10.4%	7,163	7,343	7,746	

Source: DSN research

Top Full-Line Chains Garner 10% Sales Gain

The so-called "expert analysts" keep saying that the discount department store industry is disappearing.

Tell that to Wal-Mart, Target, Ames, Fred Meyer, Hills, ShopKo, Value City, Fishers Big Wheel, Bi-Mart, Rich's, Yellow Front, Grandpa Pidgeons, Stein Mart, The Andersons, Apex, and other top full-line discount store chains that racked up double-digit sales gains in 1988.

In fact, despite a spate of bankruptcy filings and dissolutions affecting about a half-dozen full-line discounters and a year-long slump in women's apparel sales, the top 53 chains achieved more than $81 billion in sales last year, a 10.4 percent increase over 1987.

The top 53 chains listed here accounted for about 93 percent of the estimated $86.7 billion in business that *Discount Store News* attributes to the full-line discount segment of retailing. Since that total figure represents just a 2.1 percent increase over 1987, it's apparent that the larger chains—in this case, those doing at least $40 million in annual volume—are far outpacing smaller chains and independents in sales growth. This trend is expected to continue.

Store count growth among the top chains, while substantial in view of an overstored U.S. market, lagged behind sales growth. The top 53 chains opened 180 net new stores last year for a total of 7,343. That's a 2.5 percent increase over the 7,163 stores these chains operated the previous year. Apparently, sales gains are being driven by the opening of larger, higher volume stores.

And, even with competitors literally across the street from one another in many areas of the country, the top discounters expect to open at least 400 net new stores this year, a 5.4 percent increase.

Some highlights among the chains:

- K mart, Troy, Mich., retained its top spot among full-line discount store chains with nearly $23 billion in revenues from its discount stores. However, its 3.1 percent sales gain has to be viewed as disappointing in light of the aggressive new marketing efforts the company put into place last year. And, with sales off to a slow start this year, K mart will be more dependent than ever on productivity gains it hopes to reap from its billion-dollar investment in new technology.
- Wal-Mart, Bentonville, Ark., continues to cast its shadow on an increasing share of the U.S. retail scene. Even excluding its fast-growing $3 billion-plus Sam's Wholesale Club division, Wal-Mart discount stores recorded a 27 percent sales gain on a net increase of 145 stores.
- Target, Minneapolis, Minn., gobbled up a good portion of the Gold Circle chain last year, bringing the upscale discounter into new Southeast markets. Its 19.3 percent sales gain last year does not include those former Gold Circle units since they were not reopened as Targets until 1989. Those new units, plus its continued expansion in California, the Pacific Northwest and several Midwest markets, like Detroit, will push Target well over the $7 billion sales mark in 1989.
- Montgomery Ward, Chicago, is included with the full-line discounters for the first time based on its shift to an everyday low price/specialty store-within-a-store strategy. Ward is hoping greater productivity from superstore departments like Electric Avenue (CE and appliances) and Home Ideas (home furnishings) will help sales grow faster than the 3.1 percent increase seen in 1988.
- Ames, Rocky Hill, Conn., with its acquisition of nearly 400 Zayre discount stores, actually upstaged Target's and Hill's absorption of Gold Circle. Even excluding the approximate $1 billion in sales contributed by the Zayre division in the fourth quarter, Ames would have registered a sales increase of about 12 percent. With the new Zayre stores buttressing total Ames/Zayre store count to more than 850 units this year, the discounter could hit $7 billion in sales in 1989.

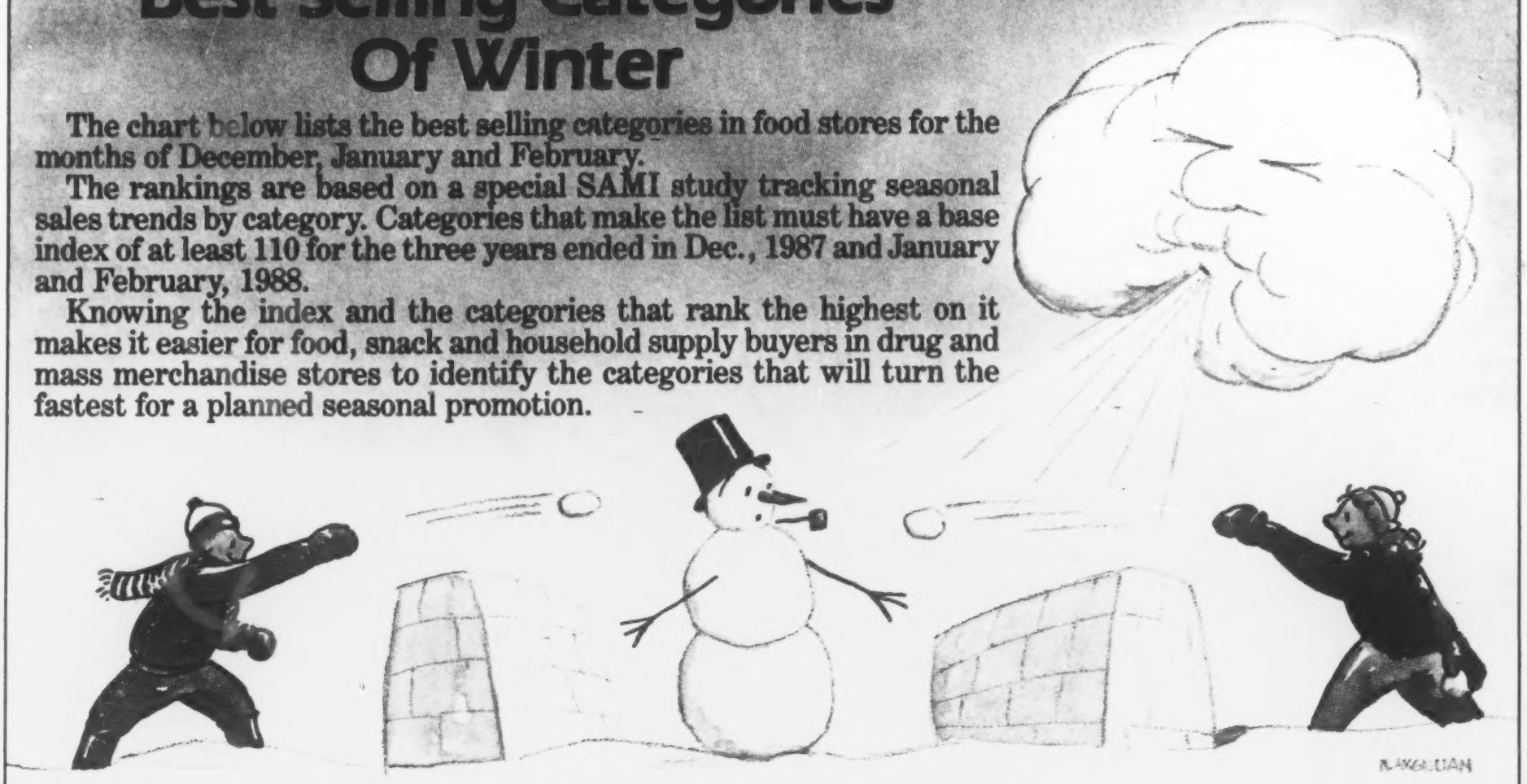
[1] *K mart includes discount stores only.*
[2] *Wal-Mart includes discount stores and SuperCenters.*
[3] *Montgomery Ward is included for first time based on the retailer's shift to an everyday low price/specialty store-within-a-store strategy in 1987.*
[4] *Ames' 1988 sales include $1.05 billion of Zayre discount store sales in the fourth quarter; store counts include Zayre acquisition in 1988.*
[5] *Zayre's 1988 sales are estimated through third quarter. Discount stores were acquired by Ames in September 1988.*
[6] *Smitty's figures exclude three food-only stores.*
[7] *ALCO is in Chapter 11.*
[8] *Heck's is in Chapter 11.*
[9] *TSS sales include 17 Finders Keepers off-price apparel stores.*
[10] *Harts includes four Big Bear Plus units but excludes Big Bear supermarket chain; figures are for fiscal year ended Aug. 27, 1988.*
[11] *Gee Bee is a division of Glosser Bros., in Chapter 11.*
[12] *Laneco includes combo stores only; excludes supermarkets and two full-price department stores.*
[13] *Mars is in liquidation July 1989.*
[14] *Maxway is in Chapter 11.*

Best Selling Categories Of Winter

The chart below lists the best selling categories in food stores for the months of December, January and February.

The rankings are based on a special SAMI study tracking seasonal sales trends by category. Categories that make the list must have a base index of at least 110 for the three years ended in Dec., 1987 and January and February, 1988.

Knowing the index and the categories that rank the highest on it makes it easier for food, snack and household supply buyers in drug and mass merchandise stores to identify the categories that will turn the fastest for a planned seasonal promotion.



Foods and Groceries: Best Sellers Of Winter

(Average three year index ranking)

December		January		February	
Foods	Index Ranking	Foods	Index Ranking	Foods	Index Ranking
Canned cranberries	391	Dates	259	Packaged nonchocolates	215
Novelty candies	322	Maraschino cherries	252	Packaged jellies	207
Baking nuts	267	Cake decorations	239	Packaged solid chocolates	201
Dates	261	Coconut	210	Tartar sauce	171
Canned onions	248	Corn syrup	206	Packaged other chocolates	164
Packaged chocolate covered fruits	242	Molasses	202	Canned salmon	146
Canned potatoes	221	Baking extracts	199	Diet desserts	140
Corn syrup	218	Cream of tartar	191	Canned pie filling	137
Pie crust mix	215	Canned meats	191	Packaged novelty items	136
Brown sugar	205	Confectioner's sugar	181	Canned cherries	134
Stuffing mixes	202	Baking nuts	180	Diet canned fruits	131
Chocolate creams	201	Cake flour	180	Dry frosting mix single layer	130
Solid chocolate pieces	200	Brown sugar	173	Chocolate covered creams	130
Marashino cherries	198	Marshmallows	166	Oriental foods	129
Dry yeast	191	Ripe olives	162	Hot cereals	127
Canned pie filling	186	Spanish olives	161	Double layer frosting mix	126
Coconut	185	Chili sauce	160	Bouillon	126
Sterilized milk	183	Canned onions	158	Canned apricots	124
Baking chocolate	182	Cider	157	Canned spinach	123
Packaged hard candies	180	Canned dry beef	151	Canned mixed vegetables	123
Croutons	179	Canned sauerkraut	147	Dried prunes	122
Confectioner's sugar	176	Canned cherries	145	Dehydrated soups	122
Ripe olives	174	Cocktail mixes	146	Milk modifiers	121
Cider	167	Canned shrimp	142	Canned pears	121
Molasses	165	Dried apricots	141	Canned tomatoes	121
Spanish olives	162			Honey	120
				Canned soup	120
Nonfoods		**Nonfoods**		**Nonfoods**	
Heatable bags & wraps	292	Fireplace logs/ bricks	325	Rock salt	169
Fireplace logs/bricks	251	Rock salt	297	Fireplace logs/bricks	114
Rock salt	176	Flash bulbs	211	Facial tissues	114
Disposable containers	170	Batteries	153	Bath additives	114
Coffee makers	153	Heatable bags/wraps	148	Light bulbs	112
Rodenticides	144	Disposable containers	143	Shoe polish	110
Flash bulbs	135	Waxed paper	143		
Batteries	132	Coffee makers	129		
Oven cleaners	126	Plastic flatware	119		
Aluminum foil	126	Poly wrap	113		

Source: SAMI Seasonality Study

F.M. SPECIAL REPORT

Membership Club 1989 Sales May Soar 29% to $18 billion

Growth is coming from both new stores and sales increases in existing stores. Top four companies now generate 80% of all sales.

Shoppers in The Wholesale Club often buy pallets of groceries at any given time. Often they resell the product.

The top ten chains in the membership warehouse club industry altogether generated close to $13.7 billion in sales last year, the equivalent of about 96% of total membership club sales. Sales this year are expected to increase another 29% to $18 billion.

In 1988, the trend to consolidation within this industry accelerated, and the year ended with the top four companies controlling about 80% of all sales.

Most of the new stores opened in 1988 were owned by the top four chains. Together, these giants accounted for 81% of all new store openings, according to *FM's* sister publication, *Discount Store News*.

In 1989, *DSN* is estimating that at least 70 more warehouse clubs will open and the top four will be responsible for at least 50 of those stores, or about 71% of all new store openings.

Membership Warehouse Clubs: Sales and Unit Growth

Year	Sales (billions)	Units
1984	$ 2.4	79
1985	4.5	137
1986	8.2	228
1987	10.7	325
1988	14.2	352
1989	18.0	420

Source: Discount Store News

Wholesale or membership warehouse club stores are extremely expensive to open, and must generate millions of dollars in sales before they can break even.

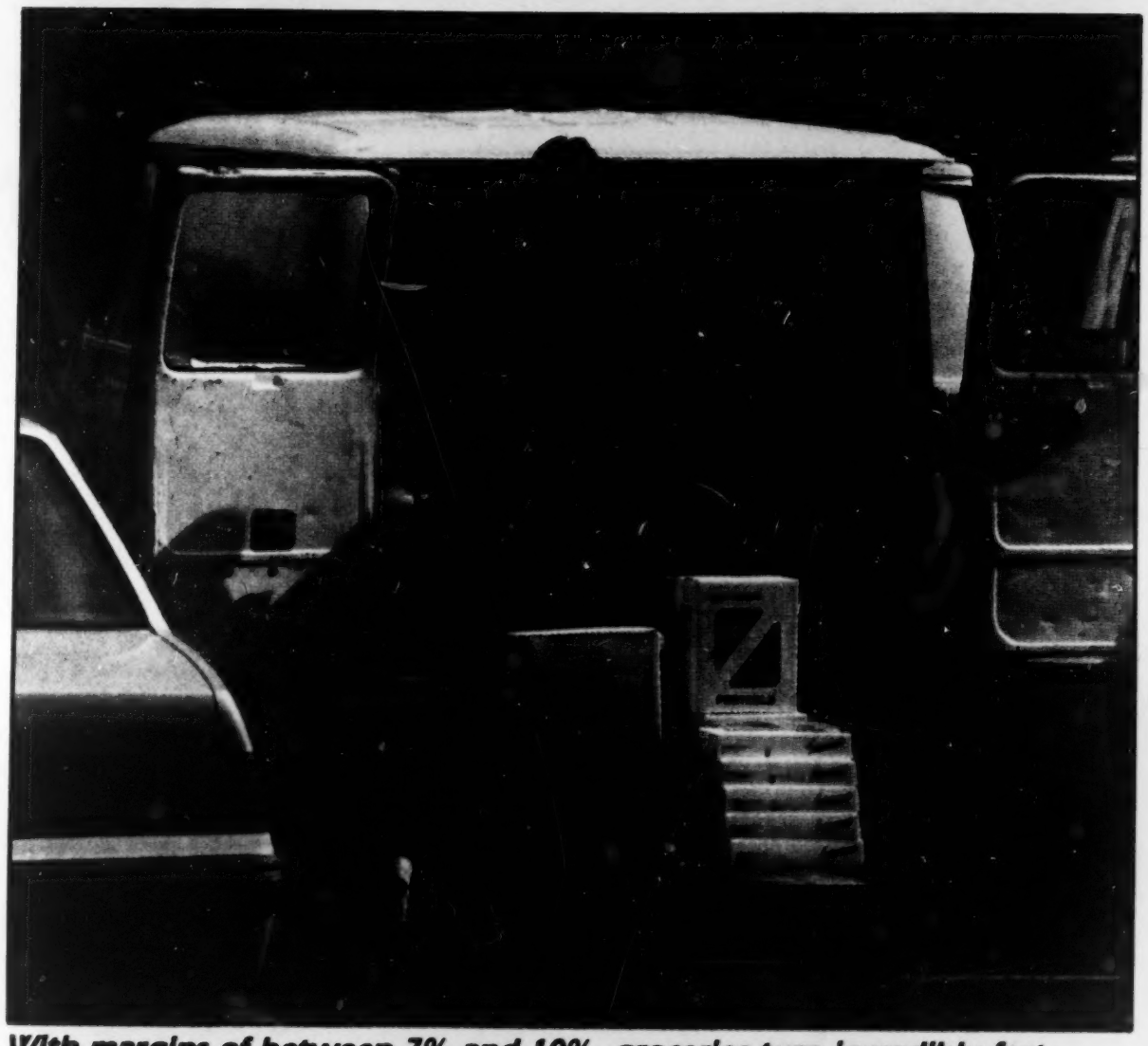
Consequently, the older chains like Price Club, which pioneered the industry back in the early 70's, are in the best position to expand, especially since they have the sales and stores in place to affect additional economies of scale with each new opening.

Sam's, the industry's second largest chain in terms of dollar volume, also has the considerable resources of parent Wal-Mart behind it, and wih 105 stores in place at the end of 1988, Wal-Mart has proven itself the most aggressive as well as the most successful at opening new stores. Management says they will open an additional 22 stores by the end of this year.

The trend is to stay efficient

In 1988, most of the operational changes in this industry were minimal. Company executives continue to fine tune their mix to weed out slow turners, and to expand the assortment of basic merchandise that would appeal to the broadest possible base of consumers.

Office supply warehouse stores,



With margins of between 7% and 10%, groceries turn incredibly fast.

Who's Who In Membership Warehouse Clubs
(Top 10 chains by dollar volume: millions)

Chain/Company HQ	1988 sales	% chng	1988 units	% chng
1. Price Club, San Diego	$4,053	25.2%	41	11%
2. Sam's Wholesale Club, Bentonville, Ark.	3.900E	44	105	25
3. Costco, Seattle, Wash.	1,989	45	50	16
4. Pace, Aurora, Ca.	1,285E	37	39	22
5. BJ's Wholesale Club, Natick, Mass.	800E	38	22	16
6. Price Savers, Salt Lake City, Utah	550E	83	13	13
7. The Wholesale Club, Indianapolis, Ind.	402	48	18	20
8. Makro, Cincinnati, Oh.	375E	25	6	50
9. Warehouse Club, Niles, Ill.	249.1	9	12	0
10. Buyer's Club, Englewood, Colo.	100E	0	4	0

Source: Discount Store News

however, did emerge as a major sub segment of this industry, and some sources say that in time they could start to cannibalize membership warehouse club sales.

However, office supplies only account for between 5% and 7% of all warehouse club store sales, according to *DSN*. Many executives say they can maintain this mix because they can offer customers more convenience, broader assortments and more accessible stores. They also feel that they can remain highly price-competitive.

Once again this year, the profile of a typical membership warehouse club store remains unchanged. Basically the mix in these stores includes a wide variety of edible and general merchandise products, ranging from select assortments of frozen food and packaged groceries to clothing, electronic goods, cleaning supplies, automotives, and more.

The customer base is still primarily small business, professional groups, churches and non-profit organizations, plus off-the-street customers who can qualify for membership.

Some units like a Price Club can do close to a billion a year in sales while others average $25 to $30 million a year. Mark-ups are also low enough to keep margins under 10% overall and the average inventory per store seldom exceeds 4,000 sku's.

What's ahead for 1989 and beyond

The outlook for the industry is still bright. Most security analysts who follow this fast growing industry expect sales and store increases to continue to soar.

Expansion is usually a matter of clustering stores in carefully selected metropolitan areas.

With the possible exception of Sam's, and even this is highly debatable, most companies in this industry regard long term success as a function of store level sales and market dominance rather than geographic expansion for the mere sake of geographic expansion.

Groceries: key product category

Groceries play a key role in all membership warehouse club sales. In these stores, they are not a mere traffic builder or a simple convenience commodity item.

They are integral parts of the merchandise mix, selling strongly to small restaurant operators, Mom and Pop grocery store operators, offices and clinics as well as to the general public.

They are usually merchandised close to the front of the store and off to the side, sometimes accounting for 30% and 50% of total floor space.

Generally, they are purchased on deal directly from the manufacturer. To be merchandised, they are often shrink-wrapped and/or stacked out on pallets. Most customers buy either in case or multiple-quantities.

In 1989, *FM* is estimating that groceries will increase another 20% to about $8.6 billion in this trade class. At that point, they will account for about 51% of all membership warehouse club sales.

Sales Top $7B as Recovery Continues

Service and Best Still Dominate Industry With About 72% of Catalogers' Total Volume

Catalog showroom chains will continue the rebound started last year, spurred by both the sustained growth of industry leader Service Merchandise and strong performances by several regional companies.

However, the industry's improving fortunes—a turnaround from just two years ago when total volume actually declined—don't change a basic fact: two chains, Service Merchandise and Best Products, still dominate the showroom business. The only national catalogers, the two chains accounted for about 72 percent of the industry's volume last year, three percentage points higher than their approximately 69 percent share in 1987.

At the same time, the industry's top 30 chains continue to account for almost all the nation's showroom volume. The top 30's share went from about 97 percent in 1987 to almost 99 percent last year, reflecting both these catalogers' sales gains and the shutting of small one-and-two store operations. Only one new firm entered the industry, Hugh Wilson Partnership, and its first five units are recycled showrooms.

erates 10 jewelry specialty stores. It has retained the Jewelmart logo for the four stores the company acquired two years ago in Ohio because of the high recognition of that name and the units' jewelry-oriented merchandising. Another Jewelmart is set to open later this year.

K's Merchandise opened 10 Eldridge's jewelry specialty store during the past year and a half, five in Kansas City, Mo., and five in Florida, while L. Luria & Son last year unveiled the first Luria's Fine Jewelry in Miami and plans additional units this year.

Dahlkemper's expects to open its first Dahlkemper's Fine Jewelry and Gifts later this year as it leverages its showroom jewelry business into specialty retailing.

The industry's stepped-up focus on jewelry as the key profit producing category hasn't lessened the overall drive to open more traditional showrooms to boost volume.

The top 30 catalogers project a net gain of 33 showrooms to 930 stores from 897 units. These chains accounted for about 82 percent of the nation's approximate 1,100 showrooms last year.

Jewelry at Save-Rite, Raynham, Mass.: The trend among catalogers to position higher-margin jewelry offerings as their core department became more pronounced last year. (DSN photo)

The industry's sales this year are expected to reach $7.4 billion, a 2.8 percent increase from 1988's volume of just over $7.2 billion.

While catalogers are striving to boost their volume from all merchandise areas, a growing number of chains are increasing their focus on jewelry, the industry's highest profit category.

Service Merchandise and Best already proclaim they are among the nation's leading jewelers and their operations include jewelry and giftware specialty stores besides showrooms. Service Merchandise runs three Zimm's and is expected to unveil more; Best operates 35 Best Jewelry specialty units and the revamping of the chain's basic showroom business planned by its new owners, Adler & Shaykin, will position jewelry as the core department augmented by related higher-margin giftware and leisure sections like dinnerware/tabletop and higher-end consumer electronics.

David Weis, apart from its 17 traditional showrooms, operates 10 jewelry specialty stores. It has retained the Jewelmart logo for the four stores the company acquired two years ago in Ohio because of the high recognition of that name and the units' jewelry-oriented merchandising. Another Jewelmart is set to open later this year.

Service Merchandise alone will account for about half of the showrooms to be added this year by the top 30 chains. That chain projects adding at least 18 units to boost its industry leading total to 335 stores, almost 36 percent of the top 30 catalogers' total number of showrooms. Last year Service Merchandise accounted for 35.3 percent of the top 30's count.

Two chains haven't participated in the industry's overall upswing. Best's sales remained flat as its new owner plans a business revamping that will invigorate volume while generating the high cash flow needed to pay for the leveraged buyout.

Jewelcor has closed about half its showrooms—citing losses at these units and/or real estate offers that made it profitable to lease or sell the sites. But Jewelcor, which is also parent of the Jewelcor Merchandising coordinator group, insists it's still committed to the catalog industry and said it planned to open new showrooms.

Top Catalog Showroom Chains

Chain (Coordinator)	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90
Service Merchandise Nashville, Tenn. (Independent)	$3,093	$2,719	13.8%	309	317	335
Best Products[1] Richmond, Va. (Independent)	2,088	2,067	1.0	194	194	194
Consumers Distributing Edison, N.J. (Independent)	300	252	19.0	88	88	89
Brendles Elkin, N.C. (MAI)	261	228	14.5	42	40	46
L. Luria & Son Miami Lakes, Fla. (Independent)	216	205	5.4	43	47	49
K's Merchandise Decatur, Ill. (Paul Schultz)	165	147	12.2	11	11	12
David Weis Monroeville, Pa. (MAI)	130	125	4.0	17	17	18
Dahlkemper's Erie, Pa. (Paul Schultz)	80	70	14.3	9	8	9
W. Bell[2] Rockville, Md. (Independent)	79	117	(32.5)	18	18	19
The Present Co. Rochester, N.Y. (MAI)	77	66	16.7	21	24	25
Sterling Jewelry Dallas, Texas (Paul Schultz)	75	75	0.0	5	5	5
Evans Rockville, Md. (MAI)	72	55	30.9	6	9	12
Witmark Grand Rapids, Mich. (MAI)	53	50	6.0	8	8	9
Jewelcor[3] Wilkes Barre, Pa. (Jewelcor Merchandising)	47	112	(58.0)	15	9	6
E.H. Tepe South Bend, Ind. (Paul Schultz)	46	45	2.2	10	10	10
Arthur's Jewelers Plainfield, N.J. (MAI)	43	40	7.5	6	7	8
Folands Livonia, Mich. (Paul Schultz)	40	38	5.3	6	6	6
Save-Rite Woonsocket, R.I. (MAI)	39	33	18.2	5	7	7
Goldbro Jewelers Birmingham, Ala. (Associated Charter)	39	35	11.4	8	8	9
Wilbro Dothan, Ala. (Associated Charter)	33	27	22.2	6	9	9
US Merchandise Cleveland, Ohio (Associated Charter)	30	25	20.0	5	6	6
Fred P. Gattas Memphis, Tenn. (MAI)	28	28	0.0	6	6	6
Brand Names Tonawanda, N.Y. (Independent)	25	25	0.0	15	15	15
Wes Freedman Scranton, Pa. (Associated Charter)	20	20	0.0	5	5	4
Prime Value Mart Fitchburg, Mass. (MAI)	19	17	11.8	3	4	4
Murray's Warwick, R.I. (Paul Schultz)	18	18	0.0	3	3	3
Paysaver Jewelers Holyoke, Mass. (Jewelcor Merchandising)	17	17	0.0	5	4	3
WR Blair Waldorf, Md. (Paul Schultz)	16	16	0.0	4	4	5
Value House Albuquerque, N.M. (Associated Charter)	15	15	0.0	5	5	5
Stroud's Wilkes Barre, Pa. (Paul Schultz)	15	15	0.0	3	3	3
Total:	$7,179	$6,702	7.1%	881	897	930

[1]Best Products was acquired in a leveraged buyout by Adler & Shaykin in November 1988.

[2]W. Bell 1988 sales are for a seven-month fiscal year following the change to a January ending date from June.

[3]Jewelcor Merchandising was acquired in a leveraged buyout by S.H. Holdings in April 1988.

Source: DSN research

Industry Reaps Higher Sales, Earnings

Emerging from women's apparel sales doldrums about halfway through 1988, most off-price specialty apparel chains ended the year in high gear and have recorded strong numbers in early 1989.

While the rebound of women's apparel—especially for last holiday—certainly helped the top 15 off-pricers post an impressive 12.7 percent collective increase in sales over 1987, off-pricers were never adversely affected by the slump as much as fashion-sensitive stores like The Limited and The Gap.

Off-pricers, as a group, continue to be a major specialty force. The push by many of the savvier general merchandise discounters toward more apparel upscaling—everything from shop-within-store concepts to a greater emphasis on brands—is, in part, a reaction to the business being done by T.J. Maxx, Marshalls, Kids "R" Us and others, who sell nationally recognized brands/labels at 40 percent to 50 percent off regular department store prices.

Top 15's Sales Top $6.7B

The top 15 off-pricers notched just under $6.8 billion in sales, while the entire off-price industry posted an estimated $10.5 billion in sales last year. In addition to snappy sales increases, most off-pricers saw profitability rise in 1988 as well.

While TJX Cos. doesn't break out earnings figures for T.J. Maxx, Hit or Miss or Chadwick's (the cataloger), the company as a whole saw operating income jump by 20.1 percent to $142 million.

With Zayre Corp. officially changing its name to The TJX Cos., Inc., the net result has been an infusion of cash and the addition of certain facilities and equipment for TJX, which will inevitably lead to greater growth for T.J. Maxx and Hit or Miss.

T.J. Maxx has been the most consistently successful off-price apparel specialty chain over the past five years. During that time, T.J. Maxx added 190 new stores and no T.J. Maxx store was ever closed other than in connection with a relocation within the same market.

The chain has begun experimenting with smaller, more sharply focused units in certain smaller markets, having opened four last year.

At $1.75 billion in sales, Marshalls remains the No. 1 off-price apparel chain. And while its performance is far better than in 1985 and 1986, Marshalls is not recording T.J. Maxx-type numbers.

Marshalls comparable store sales increased by just 2.3 percent last year, compared to a 6.5 percent increase in 1987. T.J. Maxx posted double digit comparable stores sales gains last year.

Marshalls revealed plans to upscale the entire chain by 20 units per year early last year. The new prototype, which opened last spring, features a more "departmentalized approach," or a more pronounced differentiation between categories like petite, big and tall, and maternity.

While T.J. experiments with smaller formats, Marshalls is going ahead with its new "superstore" concept. Marshalls purchased the 10-unit Branden's home furnishings chain and is planning to reopen more than half of them later this year. They will feature expanded apparel departments and categories.

Burlington Coat continues to aggressively add stores and post strong year-to-year sales gains. The company, however, was outbid last month by Schottenstein for five Dry Goods units.

Kids "R" Us has become the dominant player in off-price infants, toddlers and children's wear. The chain, a division of Toys "R" Us, has practically doubled its number of units over the past two years and has more than doubled its estimated net sales during the same period.

Clothestime, the Anaheim, Calif.-based off-pricer, has spent the last year refocusing its merchandising strategy. After years of steady growth, Clothestime's sales dropped 4 percent in 1988 to $171.5 million, while net income before taxes fell 141.9 percent to a $4.84 million loss.

Looking to grab a larger customer base, the chain is now gearing its merchandise to the 14-to-35 year-old female instead of the 14-to-25 age group it previously went after. To help promote the change, Clothestime has gone heavily into television advertising and first quarter results this year showed the chain posting increased sales and positive income.

Likewise, Ross Stores, which has spent the last few years sharpening its image, is also showing improvement. For 1988, the off-pricer's sales rose 10 percent to $634 million, while earnings before taxes nearly doubled, going from $18.9 million to $36.97 million.

The chain attributes its enhanced showing to improved inventory control, that has allowed for a cutback on clearance merchandise; full-year contribution by the company's cosmetics and fragrance department; and the heightening of better merchandise segmentation and presentation.

Loehmann's, which has been showing stagnant growth, was sold by May Co. to an investor group last year.

Filene's Basement went private last year in a management led LBO, and NBO Stores was bought by Dylex, a Canadian company.

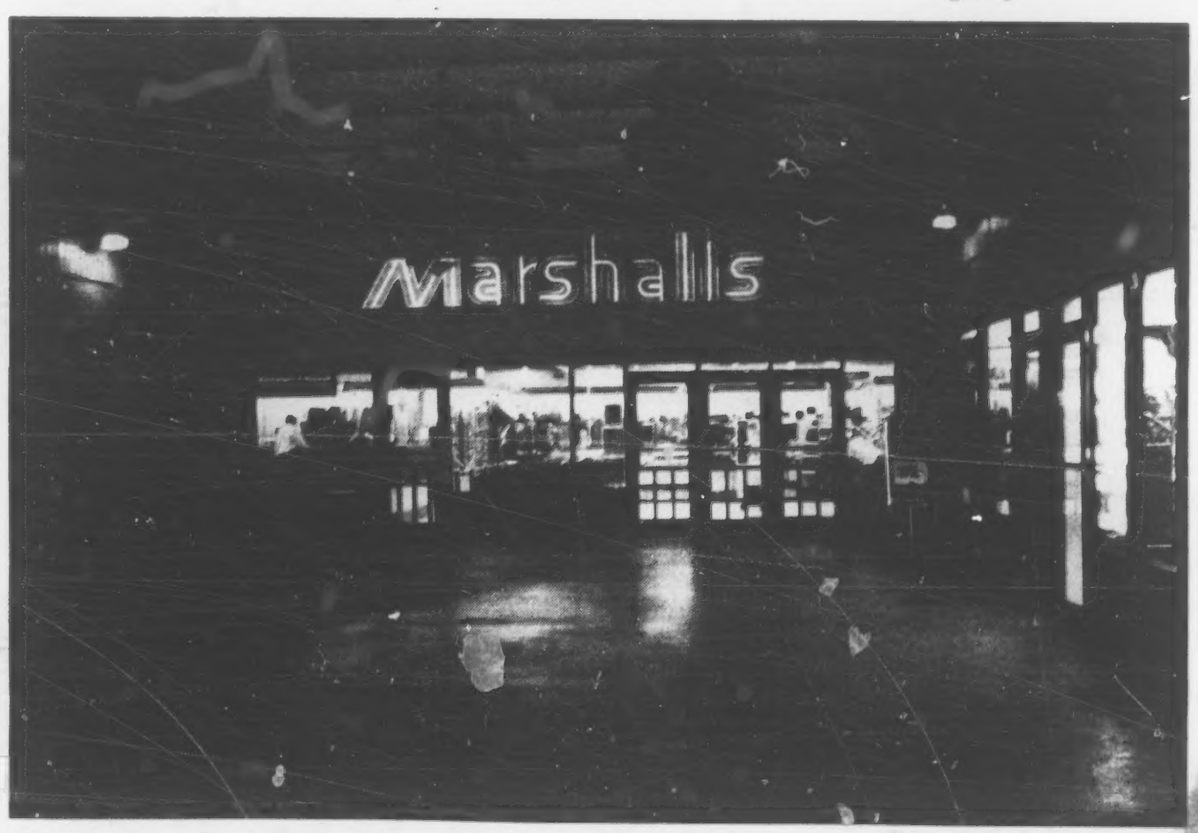
Top Off-Price Apparel Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Marshalls Wakefield, Mass.	$1,753	$1,603	9.4%	286	309	335	28,000
T.J. Maxx Framingham, Mass.	1,490	1,288	15.7	265	308	358	20,000
Burlington Coat Burlington, N.J.	639	523	22.2	111	134	150	50,000
Ross Stores Newark, Calif.	634	576	10.1	131	140	158	25,000
Hit or Miss Framingham, Mass.	370	348	6.3	485	506	551	3,600
Kids "R" Us Rochelle Park, N.J.	355	250	42.0	74	112	137	20,000
Loehmann's Bronx, N.Y.	334	351	(4.8)	76	73	73	15,000
Filene's Basement[1] Wellesley, Mass.	300	278	7.9	22	22	24	25,000
Syms Lyndhurst, N.J.	283	255	11.0	21	22	26	47,000
Dress Barn[2] Stamford, Conn.	204	174	17.2	302	378	440	4,000
Clothestime Anaheim, Calif.	171	179	(4.5)	338	335	335	4,000
NBO Stores Secaucus, N.J.	96	86	11.6	34	NA	NA	8,000
One Price Clothing Stores Duncan, S.C.	64	41	56.1	95	155	215	2,300
S&K Famous Brands Richmond, Va.	52	43	20.9	59	74	99	3,500
50-Off Stores San Antonio, Texas	44	31	41.9	20	28	34	20,000
Total:	$6,789	$6,026	12.7%	2,319	2,596	2,935	

[1]Filene's Basement became a private company in 1988.
[2]Dress Barn sales are for fiscal year ended July 30, 1988.
NA—not available

Source: DSN research

Kids "R" Us in Brooklyn, N.Y.: The Toys "R" Us subsidiary has become the dominant off-price infants/toddlers/children's apparel chain with its successful formula.



Marshalls remains the top off-price apparel chain, but its year-to-year sales growth has not kept pace with No. 2 T.J. Maxx. (DSN photos)

Clubs Share Fruits of Rapid Growth

Three different trends will fuel the membership warehouse industry's continued rapid growth this year: expanding services like offering fresh meats and produce, filling in current markets with more stores, and thrusting into the relatively untapped Northeast.

This growth should see membership warehouse sales jump 21.6 percent and reach nearly $17 billion, compared with the $13.9 billion the dozen wholesale clubs that comprise the industry recorded last year.

Almost all the wholesale clubs will share in the industry's surging growth. This achievement reflects the high recognition that membership warehouses have attained among both business and group (consumer) members and the maturing of the over 90 stores opened during the past two years.

However, two chains, Price Club and Sam's, will again spark the industry's growth as they battle for the top spot in sales. Sam's, which is the leading chain in store count with 125 projected units, is expected to finally best Price Club (with 47 projected stores) in sales, due to its larger base of clubs. The Price Club has been the sales leader with just over $4 billion in volume last year, $224 million ahead of Sam's $3.8 billion in revenues.

By any yardstick, these two membership warehouses dominate the industry. The duo's sales last year accounted for 57.5 percent of the industry's total volume, down slightly from their 58.9 percent share in 1987. The store count situation shows them with 44.6 percent of the units in 1987, going up to 46.2 percent last year, but expected to decline slightly to 45.5 percent this year.

Groceries at Costco, Hawthorne, Calif.: Fresh meat and baked goods are illustrative of the new types of goods and services offered by wholesale clubs to their members. (DSN photo)

The two chains' slight comedown in share of stores is due to the planned stepped up expansion of four chains—Costco, Makro, The Wholesale Club and Club Wholesale.

Besides maintaining an overarching presence as the leading membership warehouses, Price Club and Sam's also exemplify the industry's focus on offering more services to members.

Sam's, for example, will be offering such new departments as fresh meat, produce, bakery, optical and a business service center offering printing, copying, fax and express delivery in new clubs this year. Price Club, meanwhile, has moved its lens grinding lab and meat processing operation to larger facilities to handle the opening of more optical centers and expanded offering of fresh meats.

Other wholesale clubs are also proffering expanded services to members. This industrywide effort includes Costco projecting more than half its stores providing fresh meat and products by the end of the year, PACE offering discount telephone, pharmacy and car buying services, and Club Wholesale supplying UPS shipping, fax and delivery services while testing a car wash, bakery and fresh produce in its newest club.

The drive to enhance services is geared to providing members with added reasons to visit a wholesale club, thereby increasing a store's opportunity to sell more goods, and to counter such services as copying and faxing offered by office supply megastores.

Two wholesale clubs should reach milestones this year: Costco should pass the $2 billion sales mark, while BJ's Wholesale Club should reach $1 billion in volume, the fifth membership warehouse club to reach this plateau.

Costco's achievement will come from the maturing of the seven stores opened last year and its projected 12 new units; BJ's Wholesale Club's accomplishment reflects the unveiling of three new stores last year and a commensurate expansion set for 1989.

The two chains, along with all the other wholesale clubs, are situating many of their new stores in their current markets. Price Club, for example, plans to open two more stores in Southern California, where it already has 15 units, and its second units in Tucson, Ariz., Hampton, Va., and Long Island, N.Y. Also, PACE plans to open its fifth store in both the Atlanta and Detroit markets, while Club Wholesale plans to replace its single store in Las Vegas, Nev., with two new units.

The aim of this fill-in expansion is twofold:

- Flesh out coverage of a market so that it's easier and more convenient for business and group members to reach a store from anywhere in the area;
- Develop a strong enough market base to discourage other membership warehouse clubs from invading the area or else requiring potential competitors to make the costly investment of opening a large number of units to establish a meaningful presence.

This expansion effort has had mixed results. Most membership warehouses have gingerly moved into other wholesale clubs' markets, usually major metropolitan areas like Los Angeles, Denver or Tampa/St. Petersburg, Fla., that can support a half dozen or more stores.

As membership warehouses step up their expansion—a situation that reflects their increased cash flow and earnings which helps to fuel new stores—their position has changed: moving into other chains' markets is becoming more common.

Sam's Targets the Midwest

The outstanding example of this new trend has been Sam's, which has been spreading its network of stores from the South Central states and Southeast into the East North Central states: Ohio, Michigan, Indiana and Illinois. It's now battling Makro in Cincinnati and this year will face the Warehouse Club and BJ's Wholesale Club in Chicago and The Wholesale Club in Grand Rapids, Mich.

The next region to witness a battle among a number of membership warehouses is the Northeast, which up to now had been the preserve of 17 of BJ's 22 units, along with three Price Clubs in the metro New York area and a Makro in Philadelphia.

Over the next 30 months, Sam's plans to open over a dozen stores in Pennsylvania and New York, while Makro and Price Club have both targeted the Northeast as growth areas. PACE, meanwhile, is due to open its first store in Philadelphia as it thrusts out of Baltimore/Washington where it already has three units, with more on the way. BJ's strategy is to focus on strengthening its core Northeast presence and it plans to open three more stores in this market.

Top Membership Warehouse Clubs

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Price Club San Diego, Calif.	$ 4,053	$ 3,236	25.2%	37	41	47	100,000
Sam's Bentonville, Ark.	3,829	2,711	41.2	84	105	125	100,000
Costco Kirkland, Wash.	1,989	1,370	45.2	43	50	62	115,000
PACE Aurora, Colo.	1,271	940	35.2	32	39	46	100,000
BJ's Wholesale Club Natick, Mass.	800	575	39.1	19	22	25	100,000
Price Savers Salt Lake City, Utah	600	300	100.0	12	13	16	100,000
The Wholesale Club Indianapolis, Ind.	402	272	47.8	15	18	23	100,000
Makro Cincinnati, Ohio	300	250	20.0	4	6	10	165,000
Warehouse Club Skokie, Ill.	249	228	9.2	12	12	12	100,000
Buyer's Club, Englewood, Colo.	100	100	0.0	4	4	3	100,000
Club Wholesale Meridian, Idaho	65	75	(13.3)	5	5	8	100,000
American Wholesale Richardson, Texas	40	35	14.3	4	1	1	100,000
Total:	$13,698	$10,092	35.7%	271	316	378	

Source: DSN research

Apparel at Makro in Cleveland: Following a different apparel merchandising plan than other clubs, Makro offers a full assortment using fashion fixtures such as circular racks.

Buyout Mania Shows Signs of Ebbing

The acquisition fervor that gripped the automotive aftermarket has cooled since last fall, if for no other reason than the number of independent chains is diminishing rapidly.

The poor experience that Northern Automotive had in acquiring two money-losing chains, Auto Works and Crown, might also have dampened that fervor.

Nonetheless, several smaller chains, some as small as 15 stores, have let it be known that they're available, including Steego Auto Parts, West Palm Beach, Fla. Operating 86 stores in the United States and 79 in Canada, Steego reported 1988 sales of $158 million, including $77 million from U.S. stores.

Yet, Steego has found no takers after three months on the auction block, said an executive for an acquisition-minded chain. Non-disclosure statements bar him from naming other available chains.

In another step to make sure it won't become the target of a takeover attempt, Pep Boys—Manny, Moe & Jack, Philadelphia, strengthened its anti-takeover defenses last month. Pep Boys enhanced the rights that existing stockholders would have to buy Pep Boys stock at bargain prices if a corporate raider made a play for the country's third-largest automotives chain—but probably the most profitable.

Pep Boys reported operating income of $65.9 million for 1988 on sales of $656 million. That compares with operating income of $58.1 million on 1987 sales of $553.7 million.

In sharp contrast, operating income for Northern Automotive, which through acquisition has edged out Pep Boys for the No. 2 ranking in consolidated sales, saw its operating income plunge to $3.6 million in the fiscal year ended Nov. 5, 1988, from $29.2 million a year earlier. Its operating margin slipped in 1988 to 0.5 percent of sales from 6.9 percent, it reported in a 10-K filing with the Securities and Exchange Commission.

Top Automotive Specialty Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Western Auto[1] Kansas City, Mo.	$1,107	$ 931	18.9%	394	424	460	7,000
Northern Automotive[2] Phoenix, Ariz.	660	422	56.4	478	869	895	6,000
Pep Boys Philadelphia, Pa.	656	554	18.4	207	243	285	18,000
AutoZone Memphis, Tenn.	440	384	14.6	396	441	501	5,000
Chief Auto Parts Dallas, Texas	312	275	13.5	465	479	507	3,000
Nationwise[3] Columbus, Ohio	262	190	37.9	200	285	300	6,000
Whitlock[4] Des Plaines, Ill.	260	150	73.3	162	252	288	9,000
Trak Auto Landover, Md.	243	212	14.6	245	274	300	6,000
PACCAR[5] Renton, Wash.	190	173	9.8	131	135	145	23,000
Total:	$4,130	$3,291	25.5%	2,678	3,402	3,681	

[1]*Western Auto sales include: company-owned units, Tire America and NTW tire stores, and wholesale revenues from supplying associate stores (associate stores are not included in store count).*
[2]*Northern Automotive includes Schuck's, Checker, Kragen, Auto Works and Crown chains.*
[3]*Nationwise includes Guarantee Auto ($52 mil. in sales in 1988), acquired in February 1988; its fiscal year ended Nov. 7, 1988.*
[4]*Whitlock includes R&S Strauss, Whitlock and Rose Auto chains in 1988; excludes R&S Strauss sales of $72 million in 1987.*
[5]*PACCAR includes Al's Auto Supply and Grand Auto chains.*

Source: DSN research

Operating income thus fell below the $7.2 million in 1986 on sales of $84.1 million, for an operating margin of 8.1 percent, when it consisted of just the Schuck's chain. Northern acquired the Checker and Kragen chains in December 1986 from Lucky Stores and acquired Auto Works and Crown Auto, both money losers, in early 1988.

However, consolidated sales spurted to $660.1 million in 1988 from $422.2 million a year earlier.

Even worse, the net loss of Northern deteriorated to $58.4 million in 1988 from $10.1 million the year before. The worsening losses stem mainly from increased interest costs of acquiring Auto Works and Crown.

To pare down debt, Northern last year sold its Pay 'n' Save drug and Bi-Mart discount store chains. This January, it sold its Fair Lanes bowling alley operations. Its only remaining non-automotive entity is the Lamonts apparel chain.

The profits plunge apparently cost Dan Siewert his job last fall as head of Northern Automotive. Back in April, Siewert had to call in vendors to reassure them that Northern was sound and would soon get current on payments.

In attempts to turn Northern around, Eddie and Julius Trump, New York investors, lured John Lacey, who headed the retail operations for Molson in Canada.

Their inducements were an unspecified equity interest in Northern, a $250,000 signup bonus, severance pay of as much as $2 million and a five-year contract specifying $300,000 in salary and up to $300,000 more in performance bonuses. In an initial success, Lacey has gotten Northern Automotive current with vendor payments.

Now that Sears has acquired Western Auto, the nation's largest automotive chain, its profits are buried in Sears' overall financial reporting. But in 1987, Western reported $18 million in operating income on sales of $931 million. With estimated sales of $1.1 billion in 1988, Western probably still lags far behind Pep Boys in profitability.

In its first year under Sears' wing, Western Auto added 30 company-owned and Tire America and NTW tire specialty stores for a new total of 424. It plans to add 36 more in 1989. With combined volume from Western Auto and its 824 auto centers, Sears enjoys automotive revenues well in excess of $3 billion.

In another indication of profit stress in automotives, operating income for Trak Auto fell almost in half in 1988 to $4.6 million from $8.3 million in 1987, even though sales rose to $243.1 million from $212 million.

In May, the industry lost a 70-year-old marquee when a creditor in possession of OTASCO, Tulsa, Okla., ordered the chain liquidated. OTASCO declared Chapter 11 bankruptcy last November and closed all 171 of its remaining home and auto stores. It said it was unable to finance Christmas inventory.

This spring, the creditor reopened 63 stores but then gave up for good. OTASCO once operated 600 stores. Sales totaled $139.8 million in its final, partial year.

In further consolidations last year, PACCAR, a heavy truck manufacturer, acquired Grand Auto, Oakland, Calif. in June of 1988, adding 106 stores with 1987 sales of $173 million—and operating losses of $5.7 million — to its base of Al's Auto Supply, a chain of 29 stores with estimated sales of $13 million.

Whitlock, a division of Ward White PLC, a British retail holding group, accounted for another mid-size automotives acquisition last year. The chain paid $35.5 million for the 72 stores of R&S Strauss, Union, N.J. Strauss earned $2.1 million in 1987 on sales of $79.5 million, for a net profit margin of 2.6 percent, compared with Whitlock's margin of 5.8 percent. Strass joins Rose Auto Stores, Hialeah, Fla., in Whitlock's lineup.

In another consolidation, Nationwise, Columbus, Ohio, acquired the 75 stores of Guarantee Auto, also based in Columbus, bumping its store count to 285 as of Jan 1, 1989. Consolidated revenues came to an estimated $262 million.

A Western Auto store in Richmond, Va.: Chain expanded rapidly during its first year under Sears' control, boosting store count to a new total of 424 units.

Pep Boys in Atlanta: One of the industry's most profitable chains, Pep Boys recently strengthened its defenses against possible takeover attempts. (DSN photos)

Toy Discounters Report Robust Sales, Earnings

Along with toy manufacturers, toy specialty discounters are showing stronger vital signs in 1989. Sales volume of the top 12 toy specialty chains rose 23 percent in 1988.

But the shadow that Toys "R" Us casts over the rest of the field looms ever larger.

Among the Big Five chains, only Kay-Bee Toys, a subsidiary of Melville, kept pace with TRU in sales growth, 27.9 percent, compared with TRU's 26.3 percent.

Including apparel sales from its Kids "R" Us division, TRU became a $4 billion discounter during 1988. Consolidated revenues rose 27.5 percent from $3.14 billion in 1987, while operating profits gained 23.9 percent to $428.8 million from $345.9 million in 1987. Toy sales alone were an estimated $3.65 billion, up from $2.89 billion in 1987. TRU now operates 358 U.S. toy stores, 52 foreign toy stores and 124 Kids "R" Us apparel stores.

Kay-Bee, with more than 700 stores, now is crowding in on Child World for the No. 2 spot. Sales of Kay-Bee rose to $780 million last year, up from $610 million a year earlier.

In contrast to Kay-Bee's 27.9 percent sales growth rate last year, Child World's sales rose 7.7 percent in 1988, to $807 million from $749 million.

Child World's operating income, though, remained essentially flat at $22.6 million, compared to $22.5 million in 1987. During the year, Child World plans to add 12 more stores on top of 11 last year, for a year end total of 175.

Operating income for the fourth-largest toy retailer, Lionel Leisure, also remained flat at $3,995,000 in 1988, against $3,839,000 the previous year. Sales, however, rose 19.9 percent to $409 million from $341 million.

In a positive sign for the industry, retail operations of Greenman Bros. improved from an operating loss of $4.4 million in 1987 to an operating income of $5 million last year. Retail sales from 322 Circus World and four Playland stores rose to $176.8 million in 1988 from $154.1 million.

Wisconsin Toys has become a major player among retailers. Specializing in the toy closeout niche, its Toy Liquidators and Toys Unlimited chains recorded sales of $26.1 million last year, compared with $9 million in 1987.

Top Toy Specialty Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Toys "R" Us[1] Rochelle Park, N.J.	$3,645	$2,887	26.3%	350	410	467	46,000
Child World[2] Avon, Mass.	807	749	7.7	152	163	175	36,000
Kay-Bee Pittsfield, Mass.	780	610	27.9	676	727	797	3,000
Lionel Leisure[3] Philadelphia, Pa.	409	341	19.9	77	84	94	35,000
Greenman Bros.[4] Farmingdale, N.Y.	177	154	14.9	321	326	338	3,000
K & K Toys Norfolk, Va.	65	55	18.2	109	119	130	3,000
Karl's Toys Long Beach, Calif.	28	26	7.7	28	25	30	5,000
Wisconsin Toys[5] Milwaukee, Wis.	26	9	188.9	24	50	85	6,000
Tons of Toys Wareham, Mass.	25	12	108.3	12	22	28	12,000
Toy King[6] Orlando, Fla.	13	13	0.0	44	20	25	4,000
Hobby Center Toys Holland, Ohio	10	10	0.0	26	25	25	3,000
Toy & Sports Warehouse White Plains, N.Y.	10	8	22.0	5	6	7	17,000
Total:	$5,995	$4,874	23.0%	1,824	1,977	2,201	

[1]*Toys "R" Us includes domestic and foreign toy stores only.*
[2]*Child World includes Child World and Children's Palace chains.*
[3]*Lionel Leisure includes Kiddie City, Playworld, and Toy Warehouses chains.*
[4]*Greenman Bros. includes Circus World and Playland chains.*
[5]*Wisconsin Toys includes Toy Liquidators and Toys Unlimited stores.*
[6]*Toy King also operates as Toys & Gifts Outlet; emerged from Chapter 11 May 1989.*

Source: DSN research

IMPECCABLE

ANNUAL REPORT/SPORTING GOODS SPECIALTY CHAINS

Lineup Changes Highlight Industry Trends

The sporting goods chain roster continues to shift, as Thrifty Corp., holds to its acquisition course, F.W. Woolworth leaps onto the field and megastores ranging up to 50,000 square feet in size begin to catch hold.

Moreover, the future of the nation's largest chain, Herman's, is up in the air as two concerns battle to take over its British parent, Gateway Corp. (formerly Dee Corp.).

During 1988, Thrifty acquired three chains, Cook's, Casey's and Brown's, adding 52 more units. Including 21 new stores of its existing chains, the store count for Thrifty shot up to 233 as of the first of 1989 from 160 a year earlier.

While Thrifty does not break out sporting goods sales from its retail total of $2.4 billion for 1988, a *DSN* estimate puts their sales at $635 million, within shouting distance of Herman's reported sales of $700 million.

Two of three new names in the lineup are Sports Authority, Fort Lauderdale, Fla., and Sports Town, Atlanta. Both operate warehouse-style sporting goods megastores of 50,000 square feet. Sports Authority expects to be operating 10 by year-end, and Sports Town projects 11.

Industry estimates suggest that such megastores could produce volume of $10 million to $15 million at maturity.

In addition, K mart launched its long-awaited Sports Giant sporting goods warehouse club with the opening of two stores this spring in the Detroit market. Both 50,000-square-foot stores offer a full line of apparel, athletic shoes and equipment.

Other advocates of the megastore are Sportsmart, which is building units of 40,000 square feet, and Oshman's, whose new megastore chain, SuperSports USA, is building units of about 30,000 square feet.

In contrast to warehouse-sized stores offering a full line of apparel, shoes and equipment, including bicycles and guns, Herman's is sticking to its game plan of adding 10,000-square-foot stores, offering mainly apparel and shoes with a limited range of equipment.

A bankruptcy trustee cut All-American SportsClub from the roster in March when he ordered the chain liquidated. SportsClub already had closed four of its eight pioneering warehouse club units before declaring Chapter 11 bankruptcy last year.

Top Sporting Goods Specialty Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Herman's[1] Carteret, N.J.	$ 700	$ 640	9.4%	242	260	275	10,000
Thrifty Corp[2] Los Angeles, Calif.	635	494	28.5	160	233	262	NA
Oshman's[3] Easton, Texas	305	284	7.4	186	193	200	10,000
Sportmart Niles, Ill.	165	150	10.0	18	21	24	40,000
Champs Sports[4] Bradenton, Fla.	88	43	104.7	43	130	184	5,000
Academy Houston, Texas	82	64	28.1	23	24	27	20,000
Modell's Sporting Goods East Meadow, N.Y.	71	63	12.7	22	28	33	18,000
Sports Authority Fort Lauderdale, Fla.	40	8	400.0	1	4	10	50,000
Sports Town Atlanta, Ga.	20	8	150.0	2	6	11	50,000
Irving's Sport Shops Springfield, Va.	16	15	6.7	18	17	19	4,000
Total:	$2,122	$1,769	20.0%	715	916	1,045	

[1]Herman's include Sunset Sports chain.
[2]Thrifty includes Big 5, MC Sporting Goods, Gart Bros., Browns, Dave Cook's Sporting Goods and Mages chains.
[3]Oshman's includes Oshman's Honsport and SuperSports USA chains.
[4]Champs is owned by F.W. Woolworth, N.Y.
NA—not available

Source: DSN research

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ANNUAL REPORT/CONSUMER ELECTRONICS CHAINS

Chains Brace for Stiffer Competition

The nearly moribund CE industry received a boost at the latest Consumer Electronics Show in Chicago in early June, but two ominous clouds have appeared on the horizon in the past year. They are Brand Central and Electric Avenue, new power formats from Sears and Montgomery Ward, respectively.

Although top national CE chains have said (though not for attribution) that they're not worried about the two giants' entry into the discount CE market, both Brand Central and Electric Avenue seem to have more viability than they've been credited with.

For instance, one major chain dismissed Brand Central as a CE version of Phil Esposito, the former hockey player noted for lurking around the net to pick up easy goals on teammates' rebounds. In this case, the retailer said, Sears planned to pick up the business dropped by JCPenney when the mass merchandiser got out of the CE business a year ago.

Nine months later, this appears to be wishful thinking. Brand Central has established itself in markets where the power format exists, and Sears' buyers maintained a high profile at CES, buying the latest technology in virtually every category. This goes along with Sears' stated philosophy, which combines a more aggressive pricing strategy along with national brands, deep selection, and limited exclusivity of some products. Coupled with the firm's powerful image and credit card, this strategy is aimed at appealing to more mature (and wealthier) consumers, who on one hand want the latest in electronics, but on the other might be turned off by the youth-oriented presentation (including near-customary bargaining) of many national chains.

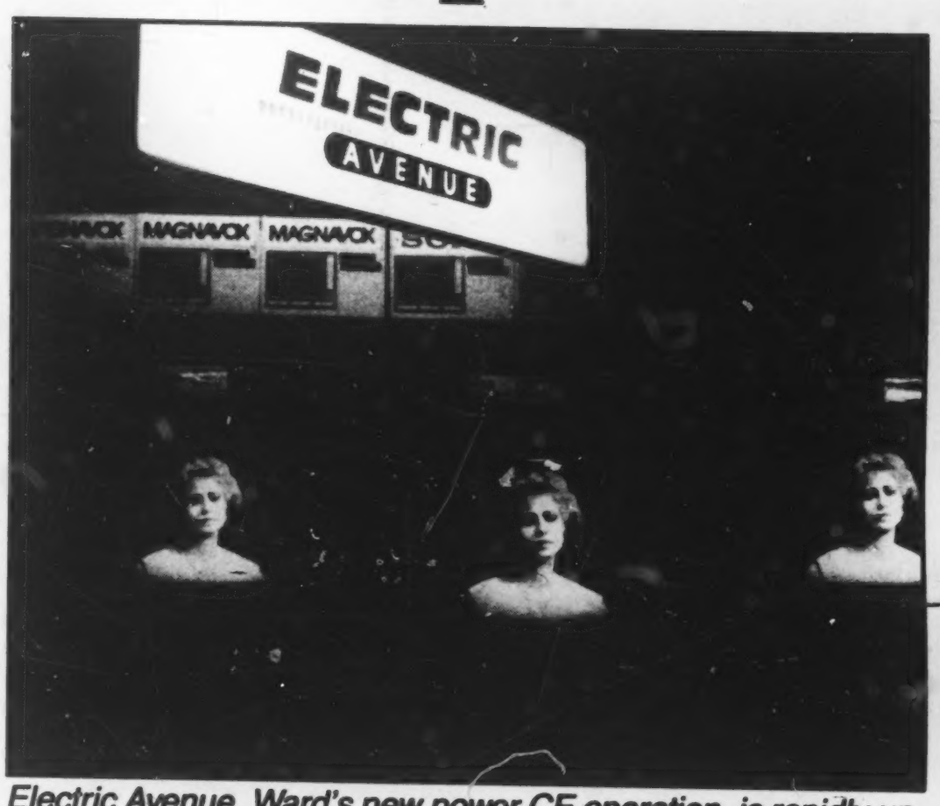
Electric Avenue also seems to have struck a chord with consumers, although its approach is much more price-oriented than is the case at Brand Central. Again, the strategy appears to involve attracting more mature consumers by eliminating some of the more high-pressure strategies prevalent at some CE chains.

Together, these two formats should have a far-reaching impact on an industry that has been in the doldrums as of late. The magnitude of their impact on the CE chains is exemplified by Sears plans to have some 800 Brand Centrals in operation by the end of next year. In comparison, the largest CE chain in store count is Silo, with a projected 227 units by the end of this year.

Further, the proliferation of office product superstore chains like BizMart and Office Depot will threaten the CE chains' ability to expand their home office selections.

And finally, it was apparent at CES that many traditional general merchandise discount chains are looking at expanding their offerings in component audio, higher priced video and home office, leading to even more pressure on the specialists.

Partly as a result of these factors, the past year has seen plunging margins, store closings, declining same store sales, and failures and near failures of some of the nation's top CE chains. The Federated Group was, to all intents and purposes, written off by parent Atari Corp. in the fourth quarter last year, and metro New York power Crazy Eddie, an innovator of the "beat any price" strategy, closed 17 stores in 1989 and now totters on the edge of bankruptcy.



Electric Avenue, Ward's new power CE operation, is rapidly upscaling its product presentation while sharpening its prices.

Smaller local chains were notable by their absence at the latest CES in June, and it appears that the industry is headed for an extended shakeout period that could result in a handful of majors like Circuit City and Silo dominating CE retailing in the United States.

In the past year, the rich have become richer, and the poor, poorer. Superpower Circuit City increased its sales by 27 percent last year, to $1.72 billion, while Highland Superstores and Silo, Nos. 2 and 3 in the country, respectively, also saw sales increases in the 25 percent range. No. 14, The Good Guys, was the only other chain to see sales jump by 20 percent or more (24.5 percent).

Best Buy, Tops, The Wiz, American TV, and Wall to Wall Sound all had healthy sales increases in the 15 percent range, and two other chains, Newmark & Lewis and Luskins, returned from 1987 losses to post profits in 1988, although both reported sales decreases.

Newmark & Lewis marked the occasion by announcing its conversion to an everyday low price strategy, vowing to take the bargaining out of consumer electronics shopping, similar to the Sears and Ward "no argument" policies.

Fred Schmid, the Denver retailer, announced that it would join the movement toward superstores, and noted that it would upgrade its audio, car audio and home office presentations to become more competitive, particularly with Brand Central.

The oft-repeated complaint within the industry, that there's nothing on the horizon to replace the sales lost when the VCR market reached maturity, will probably be heard even more frequently this year. At the summer CES show, buyers seemed pleased with the number of value-added products available, and were delighted with the vast increase in moderately priced home office goods, like fax machines and personal copiers.

Nevertheless, the most exciting new technologies, like HDTV, digital audio tape and recordable/erasable compact disc recorders, appear to be many years away from retailers' shelves.

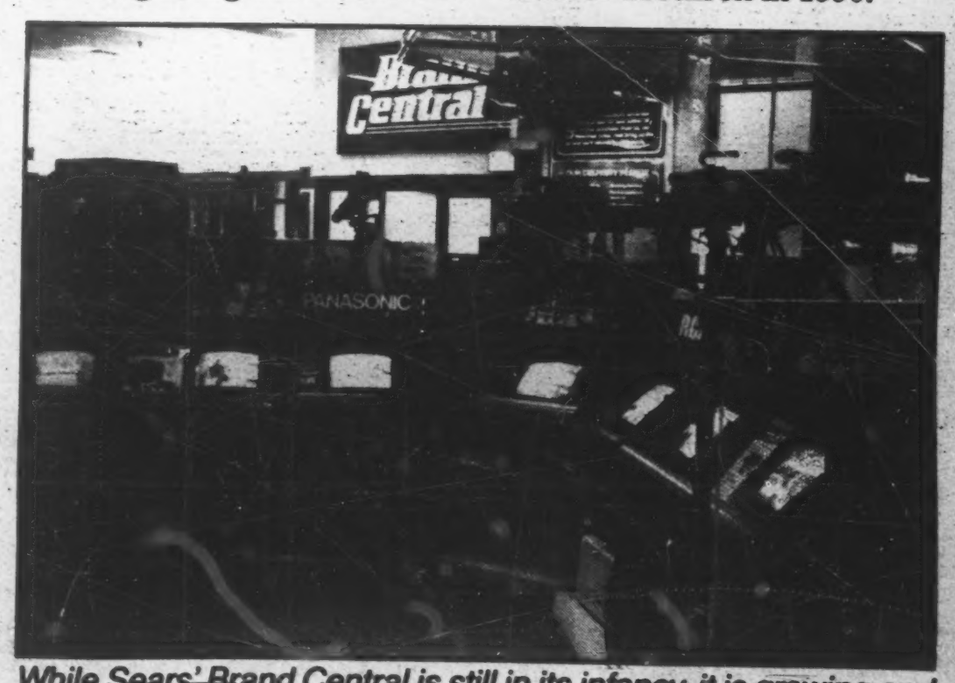
Growth, therefore, will continue to be a function of market share and market domination. To continue to grow, retailers will have to get a bigger share of what appears to be only a slightly larger pie. Look for continued expansion by the biggest chains, and rearguard actions from their smaller brethren in 1990.

Top Consumer Electronics Specialty Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Circuit City Richmond, Va.	$ 1,721	$1,350	27.5%	105	125	145	32,000
Highland Superstores Taylor, Mich.	911	753	21.0	72	84	97	24,000
Silo Philadelphia, Pa.	815	650	25.4	150	210	227	10,000
Best Buy Minneapolis, Minn.	507	439	15.5	40	41	51	25,000
Tops Appliances Edison, N.J.	320	284	12.7	2	2	3	50,000
Crazy Eddie Edison, N.J.	253	317	(20.2)	42	43	25	10,000
The Federated Group Sunnyvale, Calif.	253	437	(42.1)	65	61	0	30,000
Newmark & Lewis Hicksville, N.Y.	238	242	(1.7)	46	52	57	9,000
American TV Madison, Wis.	235	199	18.1	6	7	7	80,000
The Wiz New York, N.Y.	235	218	7.8	24	26	28	12,000
Fretter Livonia, Mich.	231	250	(7.6)	47	54	60	12,000
Audio-Video Affiliates Dayton, Ohio	196	212	(7.5)	114	125	130	10,000
Wall to Wall Sound & Video Cinnaminson, N.J.	152	132	15.2	107	107	107	8,000
The Good Guys[1] San Francisco, Calif.	149	120	24.2	15	18	22	15,000
Trader Horn Hasbrouck Heights, N.J.	140	140	0.0	15	16	16	8,000
Luskins Baltimore, Md.	123	127	(3.1)	44	45	46	9,000
Brick Church Orange, N.J.	100	100	0.0	22	40	40	15,000
Fred Schmid Denver, Colo.	100	93	7.5	17	19	16	12,000
Total:	$6,679	$6,063	10.2%	933	1,075	1,077	

[1]The Good Guys fiscal year ended Sept. 30, 1988.

Source: DSN research



While Sears' Brand Central is still in its infancy, it is growing and should become a major market force within the year. (DSN photos)

BEST AVAILABLE COPY

Computer Formats Spur Variety in ER

The burgeoning, diversified electronic retailing industry is undergoing rapid changes as the core companies expand their operations, some firms drop out of the business and other players launch ventures.

Despite the heightened interest in electronic retailing, most discounters and other traditional full-line retailers have been reluctant to make major commitments to ER endeavors. The cost of providing shopping through ER ventures, along with questions about the return on the investment have combined to reinforce the usual conservative attitude of traditional retailers toward new, unproven marketing methods.

Special retailers and manufacturers, particularly in the computer area, are major players, especially in three ER segments: telephone and computer shopping, online interactive computer shopping and interactive kiosk shopping. Computer product retailers and manufacturers are keenly interested in the computer shopping mode as PCs are a key ER access device and computer users are their natural customers.

HSN Penetrates TV Homes

Passive cable shopping remains the dominant format within the ER field, due to the fact that more than half the nation's homes are tied into cable TV and can access at least one teleshopping service. The Home Shopping Network, the leading teleretailer, also airs its shopping programs on more than two dozen broadcast TV stations, so that over 75 percent of the nation's TV homes can tune into some video ER show.

Cable teleshopping has also witnessed the greatest agitation, undergoing a major shakeout during the past three years that has reduced the players to four companies, with Cable Value Network also operating two other services that had been in Chapter 11, America's Shopping Channel and The Fashion Channel.

JCPenney has made a major commitment to teleshopping by taking a controlling interest in Shop TV, renaming the service the JCPenney Shopping Channel. Sears, meanwhile, provides some merchandise to QVC, with that teleshopper planning to launch a second service later this year that would be devoted to retailers selling merchandise in their own one-hour shows.

JCPenney has turned its attention to passive cable shopping to offset its investment in interactive teleshopping, which has stagnated. JCPenney switched off Telaction, its start-up interactive venture that was tested in Chicago, because of high development costs, failure to gain support from cable systems to carry the service and the retailer's own indecision about how the teleshopper fitted into its marketing plans.

Similar marketing uncertainty is evident at Main Street, GTE's interactive teleretailing venture. That service continues a very low-key test involving about 150 subscribers on a Newton, Mass., cable system. Main Street will also be tested as a small element of GTE's planned launching later this year of a fiber optic network for the Apollo CableVision system in Cerritos, Calif.

The greatest ER ferment is taking place in the other formats, particularly the videotex online interactive computer shopping area which is attracting a growing number of companies.

Within the direct computer service area, PRODIGY has staked out a strong position for itself by changing from a test venture in about a half dozen markets last year to an ongoing shopping-oriented business this year that expects to be in two dozen markets containing about 40 percent of the nation's homes. PRODIGY projects adding another 12 areas next year, making the service available to half the nation's homes.

PRODIGY is unique in that merchandise providers on the service include retailers like Sears, JCPenney, K mart, Lechmere and the Broadway, and manufacturers like Fuji, Levi Strauss and Rubbermaid, along with the specialty retailers found on the other videotex systems.

The ER spotlight is on the online interactive computer services because of the potential number of shoppers that can be accessed through this technology. PRODIGY, for example, reached about 20,000 PC users at the start of the year but expects to sign up over 100,000 subscribers by the end of the year.

The other online computer companies—which offer shopping as just one of an extensive mix of information services—have a total of about 750,000 customers who have made a financial and intellectual commitment to using a PC every day. ER is viewed as an extension of these subscribers' use of their PCs.

Minitel, meanwhile, has launched its nationwide service, which is modeled on a similar venture in France and which can access shopping and information services in a number of European countries.

The key change in the videotex segment, however, has been the recent launching of gateway services by four major telephone networks (telcos), with a fifth phone company, Pacific Bell, planning to start another service, California Online, next year. The telcos' gateways are the connections that enable computer users to access a host of shopping and information services, with various companies, not the telcos, actually providing the services.

Electronic Shopping Services

Passive Cable Shopping

Company	Sales (In Millions) 1988	Sales (In Millions) 1987	Cable Systems Carrying	Homes Passed (In Millions)
Home Shopping Network[1] St. Petersburg, Fla.	$730.1	$582.1	1,700	25.8
Cable Value Network[2] Minneapolis, Minn.	345.2	151.2	1,850	21.0
QVC West Chester, Pa.	193.2	112.3	1,100	16.0
JC Penney Shopping Channel Los Angeles, Calif.	7.9	0.6	125	7.0
The Fashion Channel[2] Carson, Calif.	NA	5.5	650	10.0
America's Shopping Channel[2] San Diego, Calif.	NA	NA	3	0.7

[1]Home Shopping Network viewership figures don't include broadcast reach; total reach is 55 million viewers.
[2]Cable Value Network sales don't include America's Shopping Network and The Fashion Channel, which are operated by CVN.

Interactive Cable Shopping

Main Street Stamford, Conn.	Ongoing test on a Newton, Mass., cable system. Test planned for a Cerritos, Calif., system in fall.

Telephone and Computer Shopping

Company	Revenues (In Millions) 1988	Revenues (In Millions) 1987	Number of Members Phone	Number of Members Computer	Number of Suppliers
Comp-U-Card[3] Stamford, Conn.	$ 271.8	$ 198.5	3.04 mil.	60,000 Comp-U-Store Online	1,100

[3]Comp-U-Card revenues are for membership and service fees only; it receives 5 percent of sales of undisclosed amount of merchandise. Its Comp-U-Card Online computer service, including Shoppers Advantage, is also accessed through a number of computer online services.

Online Interactive Computer Shopping

Direct Computer Services

Company	Number of Subscribers	Number of Direct Suppliers	Main Shopping Services
CompuServe Columbus, Ohio	500,000	100	The Electronic Mall Shoppers Advantage
Prodigy Services Co.[4] White Plains, N.Y.	20,000	100	PRODIGY
GEnie (GE Information Services) Rockville, Md.	115,000	20	GEnie Mall Comp-U-Store Online
Delphi[5] (General Videotex) Cambridge, Mass.	50,000	11	Merchants' Row
Quantum[6] (Quantum Computer Services) Vienna, Va.	80,000	15	The Mall
Minitel[7] Purchase, N.Y.	May 1989 start-up; Can access Comp-U-Store Online in the United States and Auchan hypermarket in France.		

[4]Prodigy Services requires dedicated software.
[5]Delphi's Merchants' Row includes CUC Online.
[6]Quantum requires dedicated software for its three services: Apple for Apple PCs, Q Link for Commodore PCs, and PC Link for IBM and compatible PCs. The service's The Mall include CUC Online.
[7]Minitel can also be accessed through a dedicated Minitel terminal.

Telephone Gateway Services

INFO-LOOK (Nynex) New York, N.Y.	April 1989 start-up in metro New York; can acccess Comp-U-Store Online. New York and New England market has 11 million customers.
Gateway (Bell Atlantic) Philadelphia, Pa.	April 1989 start-up in Philadelphia; can access Comp-U-Store Online and Delphi. Mid-Atlantic States market has 16 million customers.
SourceLine[8] (Southwest Bell) Houston, Texas	April 1989 start-up in Houston; can access Comp-U-store Online, Delphi, Minitel and Main Street Shopping. South Central States market has 9 million customers.
Community Link (US WEST) Englewood, Colo	October 1989 introduction of service in Omaha, Neb. Pacific Northwest and Rocky Mountain States market has 9 million customers.

[8]SourceLine is Southwest Bell's computer service. It also offers QuickSource interactive phone shopping/information service.

Interactive Kiosk Shopping

Kiosk/Company	Number of Kiosks	Number of Markets	Number of Suppliers
Gift Host USA (Advanced Interactive Video) New York, N.Y.	19	5	35
Gift Sender (Sears) Chicago, Ill.	10	1	NA

NA—not available

Source: DSN research; company reports; CableVision

ANNUAL REPORT/OFFICE SUPPLY MEGASTORES

Young Chains Race for Market Share

The three-year-old discount office supply industry continues on a fast track growth pace that will again produce explosive increases in sales and number of stores.

But this growth will also result in more pressure on the industry's core of 20 chains to strengthen their operations and financial position and to capture larger market shares. The chains that do so will be in a better position to survive the shakeout expected to strike the megastore business in the next two to five years.

That shakeout will be triggered by two interrelated factors. The first is the industry's growth, which will see an increasing number of chains battling each other. The other is efforts by membership warehouses and traditional office supply vendors (wholesalers and independent stationary stores) to sharpen their operations to retain their customers, the same small businesses being targeted by the discount office supply chains.

Few office supply warehouses are profitable, with Office Depot being the only public chain that has a positive bottom line of $3.8 million in earnings. The key reason for the red ink flowing through the industry, of course, is the high start-up costs in launching a large enough base of stores in as short a time as possible to, hopefully, become a market power.

As part of this drive to firm up the balance sheet, the next six months to a year will witness a stepped-up effort by a number of the privately held companies that account for about half of the industry's chains to go public to obtain the funds to fuel their growth.

Four additional chains have already gone public—HQ Office Supplies Warehouse even before it unveiled any stores—and a number of others are developing proposals as the preliminary step to launching their initial public offering (IPO).

About half of the industry's chains were funded by venture capital groups. An IPO is often the key way in which the venture group obtains a profit from their investment in start-up companies.

The industry's growth will mirror the impressive sales gains that marked the early years of the membership warehouse business. Office supply superstores' volume this year should reach about $2 billion, almost triple last year's $714 million in revenues. These sales will reflect the opening of at least 185 stores this year and the maturation of the 89 units unveiled in 1988.

A mature office supply warehouse generates about $10 million in sales, according to information in the prospectuses from public companies. The rapid expansion being pursued by most chains will result in big volume jumping for the next few years as new units reach their sales stride.

Last year sales were a 93.0 percent jump from the $370 million achieved in 1987.

The major share of the industry's revenues now comes from office supply superstores and office supply warehouses, two formats used by most of the discount office supply chains. However, most of the industry's sales in its start-up 1986 and 1987 years came from traditional stationary chains like Arvey Paper & Office Products and Jaffe's that were converting to discount office supply stores.

The office supply warehouse format focuses a chain's operation mainly on supply businesses and uses the warehouse environment—steel H-frame fixtures, concrete floors, bare ceilings—pioneered by membership warehouses. One chain, Office Club, even sells memberships which allow cardholders to buy goods at 10 percent less than non-members pay.

The superstore concept adds a number of traditional retailing features to the basic office supply warehouse format. These include greater use of traditional gondolas, tiled floors, carpeting in the office furniture section and even the merchandising of items geared to consumers to generate additional business.

Host of Services

In both formats, the discount office supply chains offer a host of services like telefaxing, duplicating, parcel shipping, printing and deliver to enhance their appeal to small businesses as well as strengthen their marketing position against their competitors—membership warehouses and traditional office supply vendors. The latter segment of the office supply field still accounts for the largest portion of office supply sales—about 75 percent—but that share is falling as megastores sales blossom.

The office supply superstores merchandise 5,000 sku's to 7,000 sku's, with the mix designed to meet the ongoing needs of small business. The seeming success of this effort is evident by the fact that about 40 percent to 50 percent of a chain's sales is in general office supply, with business machines accounting for about 30 percent, office furniture account for another 20 percent and services like faxing, janitorial supplies and consumer items like art supplies the remaining volume.

The industry's growth will be spurred by the 20 chains almost doubling their store count to over 380 units this year, an increase of over 93 percent from the 197 megastores they operated at the start of 1989. However, those figures don't indicate the operational revamping underway at Arvey and Jaffe's, which plan to convert all their stores to megastores. About one-third of the Arvey's have been changed, while almost all the Jaffe's are now megastores.

The headlong expansion undertaken by most chains has resulted in head-to-head competition in an increasing number of markets. The battles aren't just in major cities like Los Angeles, Chicago, Philadelphia, Miami, Dallas and St. Louis, but in communities that don't, at first glance, seem to be home to the large numbers of small businesses needed to sustain multichain competition. These smaller markets include Denver, Phoenix, Ariz., Nashville, Tenn., Columbus, Ohio, as well as Charlotte, N.C.

The current expansion, in turn, for the first time will result in every one of the 20 chains competing with at least one other megastore in some markets—and, in a number of areas, two and three chains. Office Club, WORKplace and HQ Office Supply Warehouse compete in Southern California; BizMart, The Office Place and Office Club battle in Denver; Staples, Office America and National Office Warehouse in Columbus, Ohio; and Office Square, Arvey and Office World square off in Chicago.

Chicago is one of a growing number of markets in which megastores are banging heads. Office World (above) faces competition from Office Square and Arvey in the Windy City. (DSN photo)

Office Supply Megastores

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Office Depot Boca Raton, Fla.	$132	$ 34	288.2%	10	26	55	20,000
Staples Newton, Mass.	120	40	197.5	9	22	38	16,000
Super City Tucson, Ariz.	100	100	0.0	17	16	16	15,000
Arvey Paper & Office Products Chicago, Ill.	100	100	0.0	34	36	40	20,000
Office Club Concord, Calif.	51	11	363.6	5	15	28	16,000
Jaffe's Miami, Fla.	40	25	60.0	7	10	14	20,000
WORKplace St. Petersburg, Fla.	25	10	150.0	2	6	17	20,000
The Office Place Boulder, Colo.	25	24	4.2	5	6	15	NA
BizMart[1] Arlington, Texas	20	0	—	0	10	28	22,000
O.P. Club[1] Phoenix, Ariz.	15	0	—	0	6	15	18,000
The Paper Cutter Liverpool, N.Y.	15	12	25.0	12	14	22	12,000
Office Max Detroit, Mich.	15	0	—	0	3	15	25,000
Office Shop Warehouse[1] McKeesport, Pa.	15	0	—	0	6	6	15,000
Action Indianapolis, Ind.	11	7	57.1	4	5	7	20,000
Office World[1] Great Neck, N.Y.	10	0	—	0	4	14	25,000
National Office Warehouse Columbus, Ohio	7	5	40.0	2	3	8	15,000
Office America Richmond, Va.	6	2	200.0	1	5	14	20,000
Office Square[1] San Antonio, Texas	5	0	—	0	2	2	25,000
OW Office Warehouse[1] Virginia Beach, Va.	2	0	—	0	2	14	25,000
HQ Office Supplies Warehouse[2] Long Beach, Calif.	0	0	—	0	0	14	25,000
Total:	$714	$370	93.0%	108	197	382	

[1]BizMart, O.P. Club, Office Shop Warehouse, Office World, Office Square, OW Office Warehouse were start-ups in 1988.
[2]HQ Office Supplies opened first store in February 1989.
NA—not available

Source: DSN *research*

Sears, Penney, Ward Go Their Separate Ways

(Continued from page 1)

Sears' reformatting has been slower, and while the company has taken a more brand-intensive approach (particularly in men's and consumer electronics), its method of doing business has not yet changed appreciably enough to merit a similar inclusion.

Penney's decision to take the high road, and compete with department stores rather than discounters, showed mixed results in 1988. While profits for the year rose by $200 million to $807 million, the company noted that most of the increase resulted from the sale of its New York City headquarters.

Penney Sales Increase Slim

Sales dropped $500 million, mainly due to the sale of a Belgian operation, but even with that factored out, the sales increase for the year was a microscopic 0.4 percent.

On the other hand, gross margin increased to 34.5 percent from 33.8 percent, probably as a result of the concentration on high-margin family apparel.

At the newly leaner Montgomery Ward, sales rose slightly to $4.8 billion, while profits increased to $139 million. While both Sears and Ward have taken a much more sharply priced approach to retailing, Ward seems to have been more successful at pricing its merchandise against major competitors such as K mart, Marshalls, and Circuit City. Sears, due in large part to its enormous cost of doing business, has been less successful at pricing against its chief competitors.

Instead, Sears has taken a more eclectic approach, offering price reductions while maintaining its traditionally high level of service. At the recent Consumer Electronics Show, it was apparent that the company is also in the process of upgrading its Brand Central CE department, particularly in the home office area. The inclusion of hot products (like a portable fax machine) unavailable to many of its competitors, coupled with the Sears name and credit card, could easily make Brand Central a dominant force in the CE industry.

In a similar vein, Sears' recently unveiled men's department features top fashion brands unavailable or available only in limited quantities to discount competition. As this new format makes its way to Sears' 830 stores nationwide, it should have a large impact on casual apparel retailing at large.

Ward, too, shares many of these advantages. The company has access to brands not normally available to discount chains, and it has a well-known franchise among American consumers. That it seems to have moved faster than Sears in containing costs and revamping its stores is in part due to its volume—about one-quarter that of Sears.

Also, Ward chief executive officer Bernard Brennan evidently made a decision to go all the way in revamping his stores. Sears, and Brennan's older brother Edward, moved much more gradually, in an attempt to retain the loyalty of regular Sears shoppers while attracting new consumers. Only time will tell which, if either, strategy was the more effective.

The short-term result, however, is that Ward has positioned itself as a low-cost provider, and has taken its everyday low price strategy message to consumers nationwide. During Sears' publicity blast in mid-March, when nearly every major newspaper in the United States carried both lead news items and Sears advertising spreading the news, Ward quietly announced record sales.

Penney, meanwhile, has evidently succeeded in carving out a niche as a "mass specialty" apparel store. Its catalog sales have boomed, and the company said it plans to continue to expand its soft lines orientation.

Whatever the final result, 1988 marked the breakup of an American institution—the Sears/Penney/Ward classification in U.S. retailing.

The Three General Merchants (a.k.a. Sears-Penney-Ward)

Chain	Sales (In Billions) 1988	Sales (In Billions) 1987	Percent Change	Earnings* (In Millions) 1988	Earnings* (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90
Sears Merchandise Group Chicago, Ill.	$30.3	$28.1	7.8%	$ 299	$1,350	(77.9%)	811	824	884
JCPenney Plano, Texas	14.8	15.3	(3.3)	1,192	979	21.8	1,378	1,355	1,335
Montgomery Ward Chicago, Ill.	4.8	4.6	4.3	130	139	(6.3)	316	324	350

**Earnings represent operating income from continuing operations, before taxes and extraordinary items.*

Source: DSN *research*

Niche Concept Spreads; 1988 Sales Vault 23%

Deep discount drug chains—which apply the discount stores' philosophy to the H&BA, cosmetics and pharmacy categories—continued to flourish in 1988 as the concept gained greater acceptance and moved into new markets.

Leading the pack, with estimated 1988 sales of $880 million was Worthington, Ohio-based Drug Emporium. The chain's revenue increased 10 percent over the past year, while store count jumped to 170, up from 139 in 1987.

During the year, the chain looked to increase its company-owned stores in both new and existing markets, while also reclaiming some of its former franchised regions such as the Los Angeles area. Already in 1989, Drug Emporium has opened its first new store in five years in Los Angeles, where its former franchise operation's growth had stalled at five sites.

Also recognizing markets with strong growth potential has been Phar-Mor. The Youngstown, Ohio-based chain was second in total sales volume, with revenue climbing some 50 percent during 1988 to $752 million.

Likewise, store count also increased greatly at Phar-Mor, rising from 74 sites in 1987 to 114 stores in 1988. Currently the chain is operating some 123 locations and 40 more units are expected to open this year.

Operating some 66 sites in 1988 was the third-highest revenue producing chain F&M. The Warren, Mich.-based retailer saw its sales climb 22 percent to $402 million during 1988, while the number of stores grew from 54 to 66 locations.

During the year, F&M entered new markets—with the help of Washington D.C. store acquisitions—while also increasing its presence in existing markets such as Milwaukee, Detroit and Chicago.

Rockbottom, Port Washington, N.Y., increased its sales by 21 percent and its store count by one, while Middleburg, Ohio-based Marc's sales rose 8 percent as its store count increased to 15 units.

Wal-Mart's dot drug chain witnessed increased sales last year, as the chain grew to 14 units. Yet despite the gain, Wal-Mart began looking for a buyer in '88 and future growth was put on hold.

Top Deep Discount Drug Store Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89
Drug Emporium Worthington, Ohio	$ 880	$ 800	10.0%	139	170
Phar-Mor Youngstown, Ohio	752	500	50.4	74	114
F&M Warren, Mich.	402	330	21.8	54	66
Rockbottom Port Washington, N.Y.	200	165	21.2	25	26
Marc's Middleburg, Ohio	197	182	8.2	12	15
Freddy's[1] Woonsocket, R.I.	130	95	36.8	14	18
Drug Palace[2] Shiremanstown, Pa.	78	49	59.2	28	40
dot[3] Bentonville, Ark.	70	56	25.0	12	14
A.L. Price[4] Pontiac, Mich.	49	36	36.1	10	14
Rx Place[5] New York, N.Y.	46	44	4.5	8	8
Cost Cutters[6] Somerville, N.J.	42	39	7.7	9	10
Drug Castle[7] Springfield, Ohio	41	38	7.9	10	10
Drug World[8] Cincinnati, Ohio	32	40	(20.0)	12	9
Total	$2,919	$2,374	23.0%	508	513

[1] *Freddy's is owned by Melville.*
[2] *Drug Palace is owned by Rite Aid.*
[3] *dot is owned by Wal-Mart.*
[4] *A.L. Price is owned by Perry Drug.*
[5] *Rx Place is owned by Woolworth.*
[6] *Cost Cutters is owned by Community Distributors.*
[7] *Drug Castle is owned by Brown.*
[8] *Drug World is owned by SupeRx.*

Source: Drug Store News *Chain Drug Survey;* DSN *research*

Our bright ideas are selling like crazy.

Concept Grows in Face of Uncertain Future

From almost nothing, hypermarket merchandising last year developed into a half billion dollar business and is likely to reach $1 billion this year.

Despite this impressive growth, the fledgling industry's future is uncertain.

The questions range from the simple issue of consumers' willingness to shop at such mammoth stores to major concerns about how to efficiently and profitably merchandise and manage such units. Biggs, which has been in the field since late 1984, reportedly made its first profit last year for its French parent.

Doubts about the viability of the hypermarket concept of marketing food and non-food together in huge stores are evident even among the American discounters plunging into this business. Both Wal-Mart and K mart regard their hypermarket ventures, Hypermart USA, and American Fare, respectively, as tests and plan in-depth probes before committing themselves to any major rollout of their initial units.

Hypermarkets in the United States

Chain (Parent)	Sales (In Millions) 1988	Sales (In Millions) 1987	Opening Date	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Hypermart USA (Wal-Mart, Cullum Cos.) Bentonville, Ark.	$275	0	Dec. 1987	1	3	3	220,000
Bigg's (Euromarché, Super Valu) Cincinnati, Ohio	150	100	Oct. 1984	1	3	4	200,000
Big Bear Plus (Harts, Big Bear) Columbus, Ohio	75	0	June 1989	0	4	4	100,000
Carrefour (Carrefour PLC) Philadelphia, Pa.	60	0	Feb. 1988	0	1	1	170,000
Auchan (Auchan Group) Woodridge, Ill.	5	0	Oct. 1988	0	1	2	180,000
Twin Valu (ShopKo, Super Valu) Minneapolis, Minn.	0	0	March 1989	0	0	2	180,000
American Fare (K mart, Bruno) Troy, Mich.	0	0	Jan. 1989	0	0	2	200,000
Total:	$565	$100		2	12	18	

Source: DSN research

Wal-Mart launched its first Hypermart USA, in a joint venture with Cullum Cos., a food wholesaler, 18 months ago in Dallas, and added two stores last year—another in Dallas and one in Topeka, Kan. While all three units are stand-alone mini-malls and destination stores, the next Hypermart USA, set to open in Kansas City, Mo., early in 1990, will be the anchor in a strip center and office complex that is across from a major existing shopping center.

K mart, in a joint venture with Bruno, a food chain, debuted American Fare in Atlanta five months ago and plans another smaller store this year in Charlotte, N.C., with two other units on the drawing boards.

Expansion moves at the other hypermarket chains vary. Discounters ShopKo and Harts are proceeding slowly with their ventures while European-based companies proclaim deep commitments to the concept as they already operate hypermarkets on the continent and in Latin America.

Biggs will unveil a hypermarket in Denver this fall as its first thrust out of its Cincinnati home, anchoring an off-price mall. It plans to open two Louisville, Ky., units as off-price mall anchors, and is eyeing three more units, including a second store in Denver and one in Tampa, Fla.

Carrefour, whose parent is the leading hypermarket chain in France, is seeking sites for more stores while fighting a zoning ruling that stopped it from opening a unit in Brookhaven, N.Y. Its next store will now be in Fort Lauderdale, Fla.

Auchan, another major French hypermarket chain, plans additional units, but is focusing its current efforts on learning how to merchandise to American consumers.

We outshine our competition where it counts most to retailers.

Variety Chains Close Money-Losing Stores

All but the two largest variety store chains are in crisis. Wave after wave of new competitors have swallowed up many chains over the years, and only those that have kept up with the changing currents are still afloat.

The top two companies, Woolworth and McCrory, were able to increase operating profits during 1988; Ben Franklin and Sprouse stores, however, were seriously in the red.

Privately held Winn's Stores would not indicate whether the company had suffered a loss, but sales dipped to $139 million in 1988, from $144 million the year before.

Four of the five chains examined closed more stores than they opened last year in an effort to curb their losses. Smaller stores, especially those in highly competitive markets were often the first to go; larger stores have been found to be better sales generators on the whole.

Most of the troubled chains announced new strategies to regain their customer base in annual reports to shareholders. New prototype formats were the main ingredient of success for McCrory and Woolworth, and perhaps the smaller variety chains could enjoy a similar turnaround.

To signal its new strategies to shoppers, the Sprouse-Reitz Stores chain changed its trade name and logo to "Sprouse!" New store layout and updated merchandising approaches being implemented this year are expected to help turn around the chain's poor performance. The first prototype store was opened in Corvallis, Ore., last November, under the new logo and focused interior format.

Radical change at Sprouse-Reitz is warranted following an operating loss of $1.3 million in 1988, down from earnings of $1 million in 1987. The chain's profits surpassed the $9 million mark in 1984, but have shrunk each year since. The chain operates stores in the West, primarily in California, Washington, Oregon and Arizona, facing competition from Fred Meyer, Price Club, Target, K mart and others.

Ben Franklin Stores, operated and franchised by FoxMeyer, lost $27 million on sales of $342 million in 1988. FoxMeyer incurred these losses when it overhauled the entire Ben Franklin business last year, restructuring wholesale operations, systems and management in the process. These changes, in turn, led to the relocation of corporate offices, installation of new computer systems, reconfiguration of distribution centers, and hiring a new management team, according to corporate reports.

FoxMeyer acknowledged that, "This conversion process had a severe impact on Ben Franklin's ability to service franchisees and resulted in a significant sales shortfall."

Woolworth's plans for 1989 are to continue pursuing the development of specialty store chain concepts. Regarding its variety store operations, Woolworth management appears to have the attitude, "if it ain't broke, don't fix it."

The company will continue to develop its Woolworth Express concept, which focuses on several key categories such as H&BA, stationery and greeting cards. While Woolworth plans to spend $316 million in capital expenditures for 800 new specialty stores, only four new variety store openings are scheduled.

On the other hand, McCrory plans over 70 new variety store openings this year. It was only a year ago that the company unveiled its new Phase V prototype store in Las Vegas. The format is reportedly on plan with its performance goals. The new stores will be conversions of the Odd Lot stores McCrory bought earlier this year.

Like Woolworth, McCrory has begun experimenting with new retail formats, including the launch of a new closeout chain called Bargain Time which is scheduled to evolve into a 200-unit chain by year-end (see story, page 126). Most of these closeout stores will be conversions of McCrory's TG&Y stores.

Top Variety Store Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
F.W. Woolworth Co. New York, N.Y.	$2,097	$2,027	3.5%	1,140	1,100	1,104	16,000
McCrory Stores York, Pa.	1,391	1,481	(6.1)	1,258	1,240	1,315	14,000
FoxMeyer/Ben Franklin Carol Stream, Ill.	342	339	0.8	1,150	1,200	1,275	10,000
Sprouse-Reitz Stores Portland, Ore.	216	219	(1.4)	313	310	315	15,000
Winn's Stores San Antonio, Texas	139	144	(3.5)	215	210	200	13,000
Total:	$4,185	$4,210	(0.6%)	4,076	4,060	4,209	

Source: DSN research

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ANNUAL REPORT/DOLLAR DISCOUNT STORE CHAINS

Dollar Stores Infiltrate Depressed Markets

If the discount store industry is a jungle, dollar stores are guerrilla warriors: small stores built quickly, inexpensively, operating on market terrain too restrictive for retailing tanks like hypermarkets, warehouse clubs or discount department stores.

The markets targeted by dollar stores are often situated in areas where income levels are too low to attract specialty store operators.

Averaging 5,000 square feet in size, dollar stores are frequently found in depressed areas: urban outskirts, rural townships and some suburban strip malls in the South and the Midwest.

Dollar stores can easily be overlooked when scanning the discount retail picture, but the top four chains combined represent over $1.5 billion in sales and more than 3,200 retail stores. By the end of this year, this store count will shoot to over 3,500.

The three leaders—Family Dollar, Dollar General and Bill's Dollar—are similar to one another in their division of sales of hard goods and soft goods, which is roughly 50/50. Each targets roughly the same shopper demographics: families with incomes of between $15,000 and $20,000.

Top Dollar Discount Store Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Family Dollar Charlotte, N.C.	$ 700	$ 560	25.0%	1,350	1,509	1,650	7,000
Dollar General[1] Scottsville, Ky.	566	588	(3.7)	1,302	1,302	1,372	6,000
Bill's Dollar Stores Jackson, Miss.	191	164	16.5	340	400	500	6,000
Bargain Town Corp.[2] Montgomery, Ala.	55	42	31.0	58	60	60	14,000
Only a Dollar Norfolk, Va.	18	8	140.0	21	58	100	2,000
Total:	$1,530	$1,362	12.3%	3,071	3,329	3,682	7,000

[1]Dollar General sales adjusted to reflect 12-month period ended Dec. 31. Company's new fiscal year ends Jan. 31.
[2]Bargain Town sales include Bargain Town dollar stores and approximately 40 Simply Six one-price apparel units.
Source: DSN research

The market overlap among the dollar stores in very high; almost all of the stores are no further west than Texas, with an especially high concentration in the South. But each of the top three are addressing a specific area of their business to differentiate itself and become the better retailer.

For example, Bill's Dollar Stores, with plans to have 1,000 stores in operation by 1993, is in the process of installing a satellite communications network to improve communications between stores.

Family Dollar has begun its second year as an everyday low price dollar chain, which, while hurting its bottom line, drove sales up 25 percent during 1988. Opening 160 new stores no doubt contributed to the sales increase as well.

Dollar General is focusing on cost controls. The company reported plans to lower advertising costs to 2 percent of sales this year, compared with 2.5 percent last year.

The company plans to reduce hiring costs by giving more attention to selection, scheduling and training—all of which is expected to curtail employee turnover at Dollar General stores. Tougher negotiation for lower store leasing costs will be emphasized this year. The chain also plans to cut self-insurance costs by "increased focus on general liability and workers' compensation claims," as stated in the annual report.

Bargain Town, acquired by the Kinder-Care Specialty Retail Group in the fall of 1987, is atypical among dollar store operators, due both to the unusally large size of its stores and its slow expansion rate. Much of the Specialty Retail Group's growth is attributable to the year-old Simply Six women's one-price apparel store chain. These stores sell apparel similar to Bargain Town's, but in a more upscale environment.

Only a Dollar, a relative newcomer to the business, has been differentiating itself from other dollar stores. The chain has developed an upscale interior atypical of other dollar stores. In fact, like specialty stores, the format has been welcomed into regional malls, making Only a Dollar the first chain of its kind willing to accept the higher lease costs. Unlike other dollar stores, as much as 65 percent of Only a Dollar's sales come from soft lines.

Typical of traditional dollar stores, though, Only a Dollar has expanded rapidly, doubling both store count and volume between 1987 and 1988.

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Newcomer Joins Elite Group of Top Chains

By year-end, the Big Two of closeout retailing promises to become the Big Three, now that McCrory Stores is rolling out its new Bargain Time chain.

With intentions to be running 200 Bargain Time stores by the end of 1989, McCrory could do $250 million in business a year, acknowledged James Guinan, chief operating officer and chairman of Consolidated Stores.

With its expansion strategy, McCrory appears to be emulating the rapid growth of Consolidated, the industry leader with 1988 sales of $627 million (including $25.5 million at wholesale) and operating profits of $41.6 million.

Initially a wholesaler of closeout goods, Consolidated opened its first retail store in 1983 and is opening about 50 stores a year on top of its January 1989 count of 308.

McCrory started to test its first Bargain Time store last year and began 1989 with only four units. Of the four, two operate in Florida. Its key to rapid expansion is to convert former TG&Y variety stores acquired in 1986 in the Southeast to the Bargain Time format, with stores averaging 10,000 square feet in size.

McCrory initially converted many of the units, strung across the Gulf Coast, to its McCrory variety store format, but with unsuccessful results. Now it plans a second conversion to a no-frills closeout format based on the tag line, "We sell stuff cheap."

It plans to convert stores at the rate of four per week, market by market, starting with Oklahoma City.

Bargain Time units will carry a basic core of ongoing merchandise in paper products, cleaning supplies and H&BA to keep customers coming in and will supplement those basics with opportunistic buys.

In addition to the TG&Y units converted to variety stores, McCrory also retains considerable real estate inventory in the form of the TG&Y units it closed but still rents. Its priority will be converting the units operating as variety stores, then the closed TG&Y stores.

Closeout Buying Staff

To acquire a closeout buying staff—key to success in this niche of discounting—the parent company of McCrory, the Riklis Family Corporation, bought for $37.1 million the 103 stores of Odd Lot Trading, Elizabeth, N.J., from Revco, the drug store chain that was operating in Chapter 11 bankruptcy.

McCrory is keeping only 70 to 75 of the Odd Lot stores and soon will scrap the name entirely. Of the retained units, McCrory will convert about 50 or so into inner-city McCrory stores. And by year end, McCrory will convert the balance of the 20 to Bargain Time units.

Bargain Time operates as a division of McCrory, a spokesman said. McCrory bought Odd Lot as an opportunity to acquire good variety store sites in the inner cities and a closeout buying staff, rather than as an operating entity.

With operating profits of $96.3 million on 1988 sales of $1.39 billion, McCrory appears to have the deep pockets to back its new venture.

The No. 2 company in closeout sales is Pic 'N' Save, Carson, Calif. In 1988, it earned $77.7 million from operating 158 stores. Sales were $401.7 million.

To gain a toehold on the East Coast, Pic 'N' Save last year bought the 16-store Job Lot Trading chain from the parent company of Wisconsin Toy, Milwaukee, Wis., a toy closeout operator.

To support its expansion drive eastward, Pic 'N' Save broke ground last year for a $40 million distribution center in New Orleans. The distribution center should open early in 1991, said Lewis B. Merrifield III, president and chief executive officer.

From its base market of California, the Southwest and Texas, Pic 'N' Save has expanded into Louisiana with three stores and will open five stores this October in a new market, Atlanta. The acquisition of Job Lot, with $48 million in 1988 sales, gave Pic 'N' Save entry into the New York metro market, including Northern New Jersey.

Following Atlanta, Florida will be the next probable expansion market for Pic 'N' Save, Merrifield said.

When it opens in Atlanta, it will find 10 Consolidated Stores units in operation. It opened its first unit there last November, Guinan said, and nine more June 16. From its Midwest territory, Consolidated Stores also is filling in a new market, Alabama, where it will open four more stores on top of last year's first three, Guinan said.

Both Guinan and Merrifield agree that closeout retail sales are increasing by as much as 20 percent, even though their own companies' sales grew last year by 6.3 percent and 11 percent, respectively.

The difference comes from a number of small chains and the closeout portion of full-line discount store sales.

At Schottenstein Stores, Columbus, Ohio, a very high percentage of goods sold in its 50 Value City discount stores and four-unit Schottenstein Stores chain is closeout merchandise.

Dollar volume for closeouters is approaching $2 billion, Merrifield estimates.

Because of the volume of new products vendors introduce, enough closeout goods always will be available. But closeout chains "constantly have to scramble" to locate goods, Merrifield said.

Making Rapid Strides

Although Wisconsin Toys got out of the general closeout business by divesting Job Lot, it is making rapid strides in the operation of its new toy closeout retail chains, Toy Liquidators and Toys Unlimited.

It operated 50 stores at the beginning of 1989, an increase from 24 in 1988, and plans to add 35 more during the year.

In 1988, Wisconsin Toys, also a wholesaler of closeout toys, earned $3.5 million in operating profits on retail sales of $26 million.

Tuesday Morning, Dallas, also operates on a specialized basis. Its 101 stores, with 1988 sales of $82 million, are closed much of the year. Tuesday Morning units open only during specified peak selling seasons.

Other closeouters of the same magnitude include Odd Job Trading, New York, $65 million in 1988 sales from 16 stores, and Building #19, Hingham, Mass., $80 million from nine stores.

On a discordant note, Glosser Bros., Johnstown, Pa., which declared Chapter 11 bankruptcy in April, has closed about 13 of its Dollar Bargain closeout chains over the past 12 months and now operates 37.

Top Closeout Chains

Chain	Sales (In Millions) 1988	Sales (In Millions) 1987	Percent Change	Number of Stores 1/88	Number of Stores 1/89	Number of Stores Proj. 1/90	Average Store Size (In Sq. Ft.)
Consolidated Stores[1] Columbus, Ohio,	$ 627	$ 590	6.3%	295	308	335	28,000
Pic 'N' Save[2] Carson, Calif.	402	362	11.0	125	158	188	24,000
Tuesday Morning Dallas, Texas	82	73	12.3	85	101	113	8,200
Building #19 Hingham, Mass.	80	73	9.6	9	9	10	80,000
Odd Job Trading New York, N.Y.	65	55	18.2	7	16	16	NA
Total:	$1,256	$1,153	8.9%	521	592	662	

[1]*Consolidated Stores includes 1988 wholesale sales of $25.6 million.*
[2]*Pic 'N' Save includes Job Lot Trading, acquired December 1988.*
NA—not available

Source: DSN research

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It's Time to Acknowledge Men as Serious Shoppers

By Harvey D. Braun

Men and teenagers are getting serious about shopping. Not just for athletic shoes and compact discs, but for a whole range of items that at one time had been within the province of women shoppers only. As more work outside the home, much of the family shopping is being done by husbands and children. And, as more men live alone (in Los Angeles, for example, 39.6 percent of a group of surveyed shoppers are single, never married), men have to be taken seriously as serious shoppers.

Impact Resources of Columbus, Ohio, affiliated exclusively with Touche Ross, surveyed men and teenage shoppers (aged 14 to 17) in four locations—Los Angeles, St. Louis, Minneapolis and New York—and found them to be a worthy target for retailers to pursue. Consider the fact that more than 50 percent of the men in Los Angeles and more than 42 percent of the men in St. Louis and New York consider themselves the primary grocery shopper in their household. Teens are also active in the supermarket, as 20 percent in Los Angeles, 13 percent in St. Louis and 16 percent in New York do much of the family grocery shopping.

And, the implications for general merchandise retailers are just as strong. Let's take a look at the shopping habits of both teens and men.

Between 25 percent and 32 percent of the 3,500 teens in the four locations shop for groceries once a week, and in three of the four cities another 12.5 percent shop more than once a week. Each of these grocery shoppers averages between $71 and $75 per shopping trip. Attesting to the seriousness of these shoppers is the fact that in three locations (excluding Minneapolis) between 37 percent and 42 percent use coupons "regularly" or "occasionally."

Percent of Men Shoppers Planning Major Purchases This Year

Car/Truck	16%-24%
Furniture	11%-14%
Home Appliance	8%-10%
Jewelry/Watch	8%-11%
TV/VCR	8%-12%
Stereo Equipment	7%-11%

Source: Impact Resources

Teens consider shopping a preferred leisure activity, surpassed only by movies, TV, listening to music and, in some places, going to the beach. Though the girls in the survey have a stronger preference for shopping than the boys, healthy percentages of boys (63 percent in St. Louis and 54 percent) cite shopping as a popular way to spend their free time.

In shopping for clothes and shoes, teens (both boys and girls) are like their elders in citing selection as their primary consideration in choosing a store. But while the adults are apt to shop discount stores for some of their clothing and footwear purchases, the teens stay away in droves, making their purchases almost exclusively in upscale department and specialty stores.

Discount stores fare somewhat better with teenagers in the area of health and beauty aids, as teens will purchase H&BA products there, but not to the extent their elders do. It seems the discount industry would do well to consider new ways of attracting these young men and women to their stores.

Who Are These Teens?

Most are students, 73 percent in grades 9 to 11. They live at home with 3+ other persons, one of whom is under 18. House-dwellers outnumber apartment-dwellers by from 3.5-to-1 to 10-to-1 in the different cities. Ethnic representation shows 54.7 percent of the teen shoppers to be white, 18.7 percent to be His-

(Continued on page 141)

Harvey D. Braun is national partner for retailing and chairman of the Retail Services Group at Touche Ross, the Big Eight accounting and consulting firm. Now based in the firm's national office in New York, Braun has consulted to retailers on a range of issues for over 25 years.

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POUR IT IN, POUR IT ON.

Acknowledge Men as Serious Shoppers

(Continued from page 136)

panic. In St. Louis, the percentage of white teens is higher (68.5 percent), and black teens make a significant showing (25 percent). In New York, the breakdown is 65 percent white, 16 percent black and 9 percent Hispanic. In Minneapolis, almost 88 percent of the teen shoppers are white, with 4 percent black and 3 percent Asian.

Good numbers of survey respondents indicated they have regular jobs, though we assume most of these are part-time jobs. But every retailer today knows how much of the retail work force is made up of youngsters between 14 and 17, which means that if these teenagers are working, they are earning money and spending it somewhere.

These part-time jobs may account, in part, for the fact that these teens attend three to four movies a month and rent movies for their VCRs in large numbers. There is somewhat of a discrepancy in terms of ownership of compact disc players, however, as 33 percent of the teens in Los Angeles and 28 percent in New York own these machines, compared to only 22 percent in St. Louis and 18 percent in Minneapolis.

How can you reach these teens? In all four locations, they seem receptive to phone solicitations, billboard and transit advertising, and direct mail advertisements. They are definitely reachable, but finding the message they will listen to is the key.

The 17,000 men surveyed in the same four locations express an attitude that suggests retailers ought to consider them also in their marketing plans. Aside from their grocery shopping (at which they spend between $50 and $58 per trip), these men attest to shopping the full range of retail stores.

Though they rank shopping further down on their list of favorite leisure time activities than do teens, shopping is on the list of between 32 percent (in New York) to 47 percent (in St. Louis).

And, a good many men—ranging from 7 percent to 24 percent of those surveyed—have definite intentions of making major purchases in the coming year, such as a car/truck, furniture, home appliances, jewelry or watches, TV/VCR or stereo equipment (see chart, page 136).

Where do these men make these purchases? In all four cities, they buy their own clothing in stores that offer the best selection. But for items such as televisions, stereos, appliances and the like, price is the criterion cited first most often. In terms of store preferences for general merchandise, selection is their prime criterion.

Catalog and direct mail buying are not popular with these men, as only between 6 percent and 8 percent of them use this form of shopping "regularly" through television shopping shows.

What does a profile of these men shoppers look like? Between 58 percent (St. Louis) and 71 percent (Los Angeles and Minneapolis) are between the ages of 18 and 54. A good many are married (from 40 percent in Los Angeles to 56 percent in St. Louis), but obviously many of them are not. So in advertising to them, retailers must take a dual approach: seeing roughly half of them as a complement to women and seeing the other half as independents.

Between 36 percent and 42 percent of the men hold "professional/managerial" jobs earning them an average annual salary of between $32,000 a year (Minneapolis) to $38,000 (New York).

Home ownership among these men ranges from 58 percent in St. Louis to 41 percent in Los Angeles. Between 30 percent (New York) and 45 percent (Minneapolis) do work around the house regularly, and between 17 percent (New York) and 29 percent (Minneapolis) work on their cars.

In the homes of a large majority of these men you will find a microwave oven; in just over half you'll find cable TV; and in about one-third of them (less in Minneapolis) there is a home computer.

About half the respondents said they listen to "some" telephone solicitations, and considerably less read half or more of the advertising circulars they receive.

What to Do

A television commercial of one major auto manufacturer shows a very "with it" woman buying a car, and bringing her man along "to pick out the color." That commercial is acknowledging a change in today's woman buyer. Isn't it time retailers acknowledge a new role for men as serious shoppers?

Are you reaching these teens and men, these serious shoppers? They are becoming a powerful force. Do you know where and how to find them? Are your radio and TV commercials, and your print ads focusing on these seemingly untapped sources of new sales?

Bonny Breaks Ground for New N.C. Plant

WASHINGTON, N.C. — Bonny Products, a division of American Brands, Greenwich, Conn., held a unique groundbreaking ceremony for its new 100,000-square-foot manufacturing plant, distribution center and headquarters here.

Pictured (left to right) are Richard Main, vice president, manufacturing; Robert Furer, president; and Barry Macklin, vp, marketing. Bonny will move its headquarters offices from Lynbrook, N.Y., and its manufacturing plant from Hauppauge, N.Y.

The new plant is expected to be completed by the end of the year. Bonny plans to add an additional 200,000 square feet of space in the next two years.

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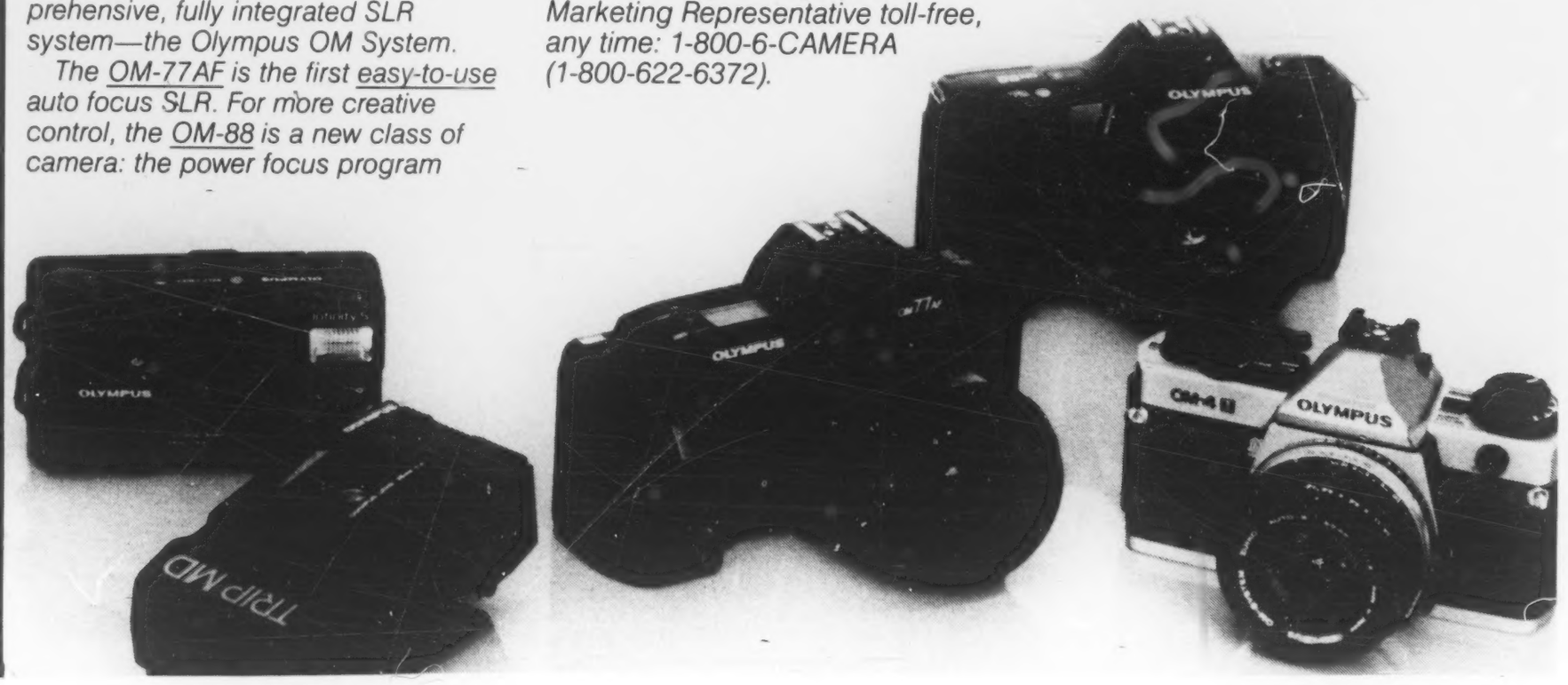

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Ames' Acquisition of Zayre Stores Main Focus of Meeting

(Continued from page 3)

1989 losses associated with the purchase.

"The acquisition has allowed us to enter new markets, including growth areas like Florida and Chicago, and also to increase our market penetration in other areas," he said. "We have doubled our assets, sales and sales space . . . and become the fourth-largest discounter in the U.S."

Other pluses: at a purchase price of 23 percent of sales, Zayre was a bargain; and the fit between the two organizations' product mix, store types and management have resulted in a relatively easy merging of the two discounters.

In the near future, Ames will fully digest the Zayre stores, with the exception of 58 units in Baltimore, Chicago, Miami, Fla., and Washington, D.C., Hollis said. Ames will restructure Zayre's field and store management, improve store standards, install point-of-sale (POS) registers and full price lookup, and introduce electronic scanning. In addition, all Zayre stores and 30 Ames stores will be linked by satellite by Sept. 1.

By Nov. 1, Hollis promised that Zayre stores will be in-stock on promotional goods at all times, and will be narrower and deeper in product mix. Like Ames, they will also have converted to an everyday low price strategy.

> ***The conversion of Zayre stores to Ames stores is proceeding 'on or ahead of plan.'***
>
> —Peter Hollis
> president and ceo, Ames

Overall, 1988 was a "very productive year," Hollis said. He cited the following signs:

- Net profits rose by 38 percent;
- Shrinkage returned to the industry average;
- Same store sales increases were above those of competitors like K mart and Target;
- Gross margins were up one percentage point on average;
- Ames' new prototype was "a hit" with consumers;
- The company continued to become more efficient at buying and distributing goods.

As the new prototype spreads to more stores, and satellite communications, electronic scanning and price lookup bring the chain further into the modern retail world, efficiencies and profits should increase, he explained. In addition, Hollis noted that increased profitability should be apparent in both the third and fourth quarters of this year.

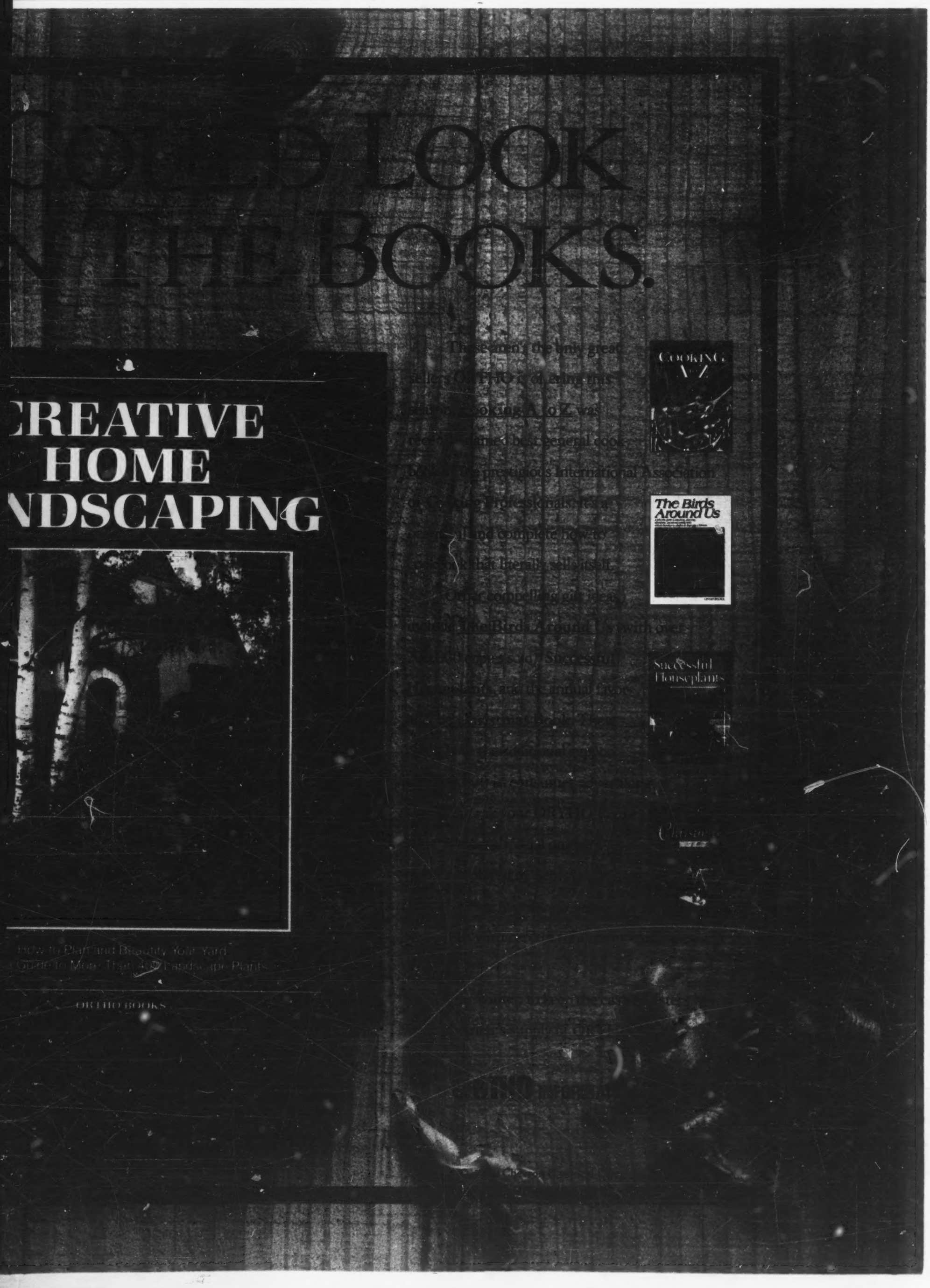
In addition to expenses related to the Zayre acquisition, first quarter sales and earnings were depressed by unseasonably cold spring weather, Hollis added. May sales were up as weather improved.

In other operations, Hollis confirmed that the company is actively seeking to sell the G.C. Murphy variety store division, after digesting the chain's discount stores, and that Crafts & More, the new specialty chain that was started last year, is a hit and will be rolled out as quickly as possible. At year-end, the company expects to have 34 units operating.

The future of another specialty concept, Office Shop Warehouse, appears to be more uncertain. While the chain has been profitable, Crafts & More has been much more productive, and Ames plans to expend its energies in that direction, leading to speculation that Office Shop might be on the block.

Hollis also announced that the company sold $200 million in long-term 13 percent notes, with the intent of retiring other long-term debt. In all, senior long-term debt should drop by some $130 million by next year.

"We're in the process of deleveraging the company," chairman James Harmon noted, adding that the debt, much of it associated with the Zayre acquisition, was "too much" for the company's health. Ames plans to reduce debt overall by 40 percent.



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No Fire Sale for Venture, Caldor

Analysts Estimate $1.5B Price Tag for the Discount Pair

By Richard C. Halverson

ST. LOUIS — When May Department Stores put Venture and Caldor on the block last month, it didn't slap any discount price tags on them.

Because they are profitable, ongoing businesses, May will expect to get at least $1.5 billion for the two chains. According to retail analysts, the department store giant could be asking as much as $850 million for Caldor's 120 stores and $650 million for Venture's 73.

News Analysis

This is no distress sale as when the old Zayre Corp., now TJX Cos., unloaded its 388 Zayre stores last October to Ames for less than $800 million to cut its losses.

And, May is in no rush to sell its discount chains, unlike Robert Campeau, who let the 76 Gold Circle stores go last September for a

(Continued on page 75)

FOR SALE!

Caldor	Venture
HQ: Norwalk, Conn.	**HQ:** St. Louis, Mo.
Chairman: Don R. Clarke	**Chairman:** Philip G. Otto
President: Marc I. Balmuth	**President:** Julian M. Seeherman
1988 Sales: $1.574 billion	**1988 Sales:** $1.282 billion
No. of Stores: 119	No. of Stores: 73
Operating Income: $50 million	**Operating Income:** $81 million
Proj. Price Tag: $850 million	**Proj. Price Tag:** $650 million

Source: The May Department Stores Company; industry analysts

'Vendor Store' Makes Its Debut

Don Soderquist, vice chairman of Wal-Mart, at the grand opening of the chain's new 110,000-square-foot experimental 'vendor-designed' store in Janesville, Wis. (DSN photo)

Wal-Mart Test Off to Rousing Start; 2nd Unit Slated for Charlotte, N.C.

By Pete Hisey

JANESVILLE, Wis. — Wal-Mart's new 110,000-square-foot "vendor store" virtually exploded on the scene in this small Wisconsin city in late June.

Dominated by a high-tech Gitano boutique, the new store features far wider aisles, more color and a more upscale merchandise mix than is the case at most Wal-Marts. From the Cannon towel wall to the new home office department in consumer electronics, the prototype displays near-department store merchandising wrinkles throughout.

And yet, it remains clearly a Wal-Mart, in color scheme, in merchandise mix, and most importantly, in pricing.

In the new prototype, key vendors actually designed their own departments, which were then stocked with roughly the same product mix as in other Wal-Marts. There are exceptions, particularly in some smaller areas, where one vendor will be supplying all products, but on the whole, departments feature a traditional merchandise mix.

Power departments in the store include:

- A 20 percent larger home fashions area, designed by Cannon;
- An enclosed CE/audio department featuring Toshiba fax machines, an impressive Pioneer display, a 20-foot run of telephones and TADs, and a video wall;
- A massive kids' apparel department;

(Continued on page 75)

PACE to Install Interactive Kiosks

Will Provide Self-Service Information on Tires and Batteries

By Arthur Markowitz

AURORA, Colo. — PACE is due to install interactive informational kiosks in all its stores this month to become the first membership warehouse to employ this technology chainwide.

The kiosks, which are supplied and serviced by ByVideo Inc., provide information on the B.F. Goodrich tires and Delco batteries carried by PACE, so members can determine which specific products to buy for their vehicles. The units, as a marketing tie-in, also promote PACE's extended tire warranty program.

PACE was considering other functions for the terminals, including using them to order merchandise, president Charles E. Steinbrueck said. "We first want to get an overall reaction to the terminals before looking at other applications. We are aware of their ordering potential and are studying other uses."

The chain decided to use interactive kiosks because members wanted information on what tires and batteries to use on their vehicles. "The terminals provide this information without any payroll expenditure," Steinbrueck said.

ByVideo provides the kiosks and the software, including the informational program that was developed in conjunction with PACE, B.F. Goodrich and Delco. The video display shows various vehicles, while the graphic information details tires and batteries designed for specific cars or trucks, including sku number and price.

ByVideo, from its headquarters in Sunnyvale, Calif., can update the graphic information as PACE adds new items or product listings can be blanked out as PACE drops merchandise. The videodisc that contains the video presentation and basic generic information like how to operate the program will be changed about twice a year.

The kiosks' technology includes self-diagnostic soft-

(Continued on page 78)

China Stabilizes; Chains Shelve Apparel Worries

By Kenneth M. Chanko
International DSN Report

Most general merchandise discounters and apparel offpricers foresee no major disruption in the flow of apparel to this country from China.

While early in the aftermath of the violent crackdown on the pro-democracy movement there were major concerns about shipments making it out of China, most of those fears have been quelled by the receipt of goods and a return to normalcy in China.

A few discounters said some shipments have been a couple of weeks late.

Also of concern was a Democratic-led call for economic sanctions against China, including removal of its most favored nation (MFN) status, which would mean higher tariffs on textile and apparel imports from China.

However, earlier this month, the House of Representatives voted in a bipartisan measure to impose certain

(Continued on page 78)

Apparel Leads Merchandise Productivity

this World
major mer-
(DSN photo)

Nationwide DSN Report

Apparel will account for nearly one-third of total volume at full-line discount department stores this year, according to *DSN*'s annual survey of department productivity. Ladies' wear, with a projected $14.5 billion in sales, will be the single largest category, followed by housewares, $11.9 billion.

Last year, warehouse clubs, hypermarkets and electronics chains were the most productive in sales productivity. *DSN*'s Annual Report: Part II, beginning on page 29, also profiles the largest full-line chains.

MARKETWATCH

Sears' Big Move: 20 Miles Away

CHICAGO — Sears has decided to move its revamped merchandising group just 20 miles from the 110-story Sears Tower in downtown Chicago to a 700-acre site in suburban Hoffman Estates. To retain Sears, the state of Illinois will provide the retailer with $61.1 million in grants, loans, tax abatements as well as other incentives. Sears will spend $220 million during the next 30-plus months to develop the site, which will be home to about 6,000 of the company's employees. Sears' corporate headquarters with 600 senior executives and other staffers will still remain in the Sears Tower. The merchandising staff's reorganization will be completed next month with the cutting of the last of 825 jobs. The merchandising arm will then be organized into six vertical units, each focusing staff and field operations on a core business like Brand Central or Kids & More.

Circuit City Looks Heavenward

RICHMOND, Va. — Circuit City is the latest retailer to phase in a satellite communications network. The $4 million system, being installed by Hughes Network Systems this summer, will link the retailer's headquarters here to 150 stores in 13 states. Its applications include transmitting sales data, voice communications and sales and management training videos.

QVC Eyes CVN; Gets Favorable Response

MINNEAPOLIS — QVC Network's takeover offer for CVN Cos. has received a "favorable" response from CVN Cos. board. But the board added that it wouldn't take any further action until it received definitive financing commitments from QVC and resolution of details regarding the structure and timing of the proposed transaction.

City of Hope Honors Teninga

SKOKIE, Ill. — Warehouse Club founder and chairman Walter H. Teninga has been presented with the 1989 Spirit of Life Award by the Illinois Food & Marketing Council of the City of Hope. The City of Hope is a non-sectarian medical and research facility.

Penn Traffic Embraces Big Bear

JOHNSTOWN, Pa. — Penn Traffic has completed its acquisition of Big Bear Inc., the Columbus, Ohio-based supermarket parent of Harts discount stores and Big Bear Plus hypermarkets. Penn Traffic, a division of New York-based Miller Tabak Hirsch & Co., operates several supermarket chains and plans to maintain Harts as its discount store arm. Former Big Bear stockholders are to receive $38.60 in cash for each share.

FNN Pulls Plug on TelShop

LOS ANGELES — The Financial News Network has closed TelShop, its cable shopping service, to obtain additional air time for expansion of its FNN:Business program into an around-the-clock operation. FNN is considering alternative channels for TelShop, which was targeted to be a $14 million business this year. Last year it had $10 million in sales and $1.1 million in operating profits.

Brendle's Names Johnson as President

ELKIN, N.C. — Brendle's, in the first step of a restructuring of the 40-showroom chain's executive team, has appointed Dennis B. Johnson as president and chief operating officer and promoted Jeffrey D. Mick to executive vice president and chief financial officer from vice president and chief financial officer. Johnson, previously senior vice president of Famous-Barr, a St. Louis conventional department store chain, succeeds Douglas D. Brendle as president. Brendle continues as chairman and ceo.

FOR THE RECORD

Single copies of *Discount Store News* cost $4 each, except the annual census issues (Annual Report: Parts I & II), which cost $35 each. The July 3 issue of *DSN* did not indicate the correct price. Yearly subscriptions are free to qualified retail and wholesale executives. Manufacturers and others, in the United States, pay $69 for a one-year subscription.

HQ Office Supplies Warehouse opened its fifth store in the United States last month. The Long Beach, Calif.-based chain has stepped up its opening plans to reach 14 to 16 stores by the end of 1989. An article in the July 3 issue of *DSN* incorrectly identified HQ Office Supplies Warehouse as HQ International, a new corporation that plans to open office supply stores in Canada. HQ International is operated by the same executives that founded HQ Office Supplies Warehouse and utilizes the same headquarters.

Lechters Bids for Public Ownership To Fuel Expansion, Store Openings

HARRISON, N.J. — Lechters will become the first housewares specialty store chain to become publicly owned.

The proceeds will be used to "repay indebtedness and pay for new store openings," according to Ira Rosenberg, vice president and corporate counsel of the 271-unit chain based here. "It is prudent to expand the capital base as the company expands, otherwise it becomes too highly leveraged," Rosenberg added.

In the prospectus, Lechters reported sales of $120.8 million and operating income of $13.5 million for the fiscal year ended Jan. 28, 1989, when 234 stores were in operation.

The company plans to open 50 to 60 stores during this year and next, Rosenberg said. Twenty percent—or 10 to 12 stores—of the proposed store openings next year will be in new markets in Western and Southwestern states, he added. The company currently operates stores along the Eastern Seaboard and as far west as Iowa; the only stores farther west are in California.

No changes in Lechters' 2,900-square-foot format are planned. The stores stock over 4,000 sku's, roughly 80 percent of which are brand name non-electric housewares. Sales are divided among basic housewares (60 percent), tabletop items (30 percent), and kitchen textiles (10 percent).

Several of the stores to be opened next year will be The Kitchen Place stores. Lechters operates 11 of these 3,800-square-foot units.

Lechters is also in the process of improving its roughly 200,000-square-foot distribution facility located at its headquarters in Harrison, N.J. Improvements include the installation of an automated loading system, said Rosenberg. The Lechters prospectus stated that the DC upgrade is expected to cost about $1.2 million.

Another $7 million would be required if the firm installs a point-of-sale system.

The proposed initial public offering of 1.96 million shares is expected to bring a starting price per share between $16.50 and $19.50. An estimated $12.8 million will be generated assuming an IPO of $18 per share and deductions for underwriting discount and offering expenses, according to the prospectus.

The company reported that 855,555 of the shares are being sold by Lechters, with the balance being sold by shareholders. The dual syndicate structure planned by investment firm Goldman Sachs & Co., New York, calls for offering 1.6 million shares to U.S. investors and 350,000 shares abroad.

Burlington Coat Nears Acquisition

Off-pricer Buys Inventory of Three Bankrupt Cohoes Stores

BURLINGTON, N.J. — Two months after being outbid in bankruptcy court for the remaining Dry Goods stores, Burlington Coat is closing in on the purchase of the three remaining Cohoes Specialty Stores units.

Burlington Coat has already bought the inventory of the three Cohoes stores for $3.2 million at a bankruptcy auction in Cohoes' Chapter 11 proceedings and is in the process of liquidating the merchandise through clearance sales at the three units.

Monroe Milstein, president of Burlington Coat, told *DSN*, "We've been looking at Cohoes for quite a while. They're the Cadillac of moderate-priced apparel chains in the Northeast."

Milstein said if continuing talks led to a purchase, Burlington Coat would operate the stores as Cohoes and not try to integrate the units into the Burlington Coat chain.

The units are located in Cohoes and Rochester, N.Y., and in East Windsor, Conn.

In May, Burlington Coat was outbid at a bankruptcy auction by Schottenstein Stores Corp. for The Dry Goods chain, an apparel off-pricer.

Two More Vendors Added To SPARC Finalists' List

NEW YORK — Due to a tie in the voting, two vendors have been added to the list of sixty top manufacturers that have been nominated as finalists for the 12th annual SPARC (Supplier Performance Awards by Retail Category) awards.

Vivitar joins previously announced Keystone, Kodak and Polaroid as nominees in the photography category, while Union Camp is a finalist along with Faber Castell, Mead and Stuart Hall in the stationery category.

The other nominees in 20 product categories were announced in the June 19 issue of *DSN*. The 1988 SPARC awards will be presented during a special banquet Sunday, Aug. 13, at the Downtown Marriott in Chicago. For reservations and details, contact Fred Filer, vice president/publisher, *Discount Store News*, 425 Park Avenue, New York, N.Y. 10022, (212) 371-9400, ext. 217.

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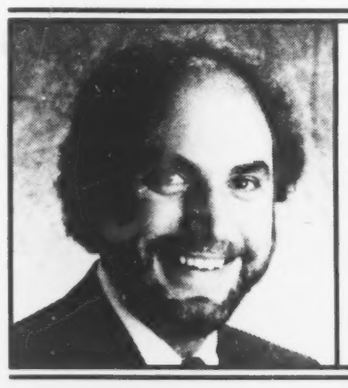
May-less Caldor/Venture May Be Better

The handwriting was on the wall. Ever since The May Company merged with Associated Dry Goods and acquired Caldor in August 1986, industry observers were skeptical about the future of the retailer's two discount chains. Almost everyone believed that either Connecticut-based Caldor and Venture—its strong sister chain in the Midwest—would be merged into a super-regional powerhouse or both chains would be sold.

I remember that most analysts shrugged off continuous, adamant denials by May executives that Caldor and Venture would become one chain. When former Venture chairman Don Clarke (followed by president Marc Balmuth) took over Caldor in November 1986, I thought for certain that a merger was inevitable. In fact, I wrote in an editorial that "Caldor would become a Venture clone." At the same time, May president Tom Hays told *Discount Store News* that "Caldor hasn't had a clear set of directives. It hasn't understood the business of discounting."



TONY LISANTI
Editor

But the years passed and nothing happened. No merger and not much growth. And one can only wonder if May was ever truly committed to learning the business of discounting.

When I attended a May Company press conference in early May, it was a replay of the retailer's previous meeting in 1987. The focus of May chairman David Farrell's presentation was the department store business. Rarely were Caldor and Venture even mentioned. Again Hays denied the two chains would be merged though he admitted there was a growing synergy between the discounters. I began to wonder if Caldor and Venture would be better off without May as Gold Circle would have been better off without Federated.

So last week when the May Company put Venture and Caldor on the block, few, if any, retailers and analysts were surprised. Now it's a game of speculation—who will acquire these two venerable discounters?

Several likely names have cropped up as associate editor Richard Halverson mentions in his news analysis beginning on page 1. But the key question is which discount retailer can swallow a billion dollar debt with consumer spending softening and the continued threat of a recession. Furthermore, while several discounters want a slice of Caldor and Venture, no discounter wants, or can afford, the entire pie.

It is likely that an investment group will acquire the two chains and break up the chains like Kimco Development Corp. did with Gold Circle. Or a new parent could do what everyone wanted May to do from the beginning—merge the two chains and create a super-regional discounter that will be more efficient and profitable.

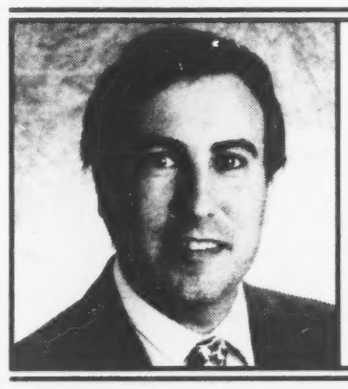
There's no doubt that Caldor and Venture are two strong, viable chains that could prosper given the chance from a parent who understands discounting.

BUYERS & SELLERS

Advances in Merchandising Juice Up Retailing

Discount stores are undergoing a merchandising revolution. And, leading the charge are innovative retailers and vendors who are giving the stores something they've lacked for many years: EXCITEMENT.

The biggest news in apparel retailing at the discounters over the past year is boutiquing and the shop-within-a-store concept. Caldor was the first to take on a Gitano shop in its stores. Now, Ames, Venture and Jamesway are opening several of these single-vendor merchandise areas. Innovative groupings of merchandise can be seen at most any discounter today: McGregor at Stuarts for example, and Brittania at Target.



DON LONGO
Exec Editor

Boutiquing is not exclusive to apparel. One look at the successful "World of Nintendo" shop at Child World has left several retailers, among them Bradlees and Toys "R" Us, scrambling to follow suit. And, the creation of "home office" shops has added profitable sales growth to the typically commodity-heavy stationery department.

The MTV-look has finally trickled down to the mass market level. Sears, that epitome of conservative middle-class values, makes ample use of music videos throughout its new superstore concepts in men's and children's apparel. And, while some Wal-Mart execs might have been a bit skittish about the rock music and gyrating bodies emanating from the video monitors in the Gitano shop at the retailer's new "vendor store" in Wisconsin (see story, page 1), there's no denying the strong message these techniques convey to shoppers: "Hey, we're cool. So are our clothes. Check us out."

Retailer-exclusive merchandise is also helping to add another point of differentiation between discounters. With unprecedented cooperation and input from their vendors, retailers are grouping their merchandise—sometimes across wide product categories—into coordinated assortments with a common marketing thrust. Without doubt, the most compelling example of this is the Martha Stewart home fashions program that essentially is a partnership between K mart and 39 domestics, housewares and home improvement product vendors.

According to a recent study conducted by our sister publication, *Chain Store Age Executive*, discount stores have become the top choice of store for all age groups, all income levels and every size of U.S. household. With such merchandising innovation becoming more widespread, it's no wonder that American consumers have increased their shopping trips to discount stores in the past year while making fewer visits to every other type of store.

WASHINGTON REPORT

Product-Related Injuries: Who is Responsible?

For years now, Congress has been grappling with the product liability problem, and the question of who should be held responsible for product-related injuries.

The problem is that for many product-related injuries it's simply not possible to assign blame. Who do you hold responsible when the handyman loses his balance and falls off a ladder? Unless the ladder was defective to begin with, it's hard to argue that the manufacturer was at fault. And as long as the product seller didn't contribute to the hazard (e.g.,by failing to pass on warnings or safe usage instructions), you can't logically blame the retailer.

KEN RANKIN

Unfortunately, the courts haven't taken a logical approach to product liability litigation. In too many cases, the plaintiff with the deepest pockets was forced to compensate the victim, regardless of who was responsible.

This lamentable phenomenon, coupled with skyrocketing dollar awards, has sent insurance premiums soaring. One estimate attributes 30 percent of the price of a stepladder to the escalating costs of product liability insurance and damages.

Worse yet, a growing number of manufacturers have dropped their liability insurance coverage—a dangerous situation for their retail customers who could ultimately be forced by the courts to assume responsibility if the supplier is unable to pay damage awards.

The obvious solution to the problem is to rein in the courts with legislation to reform the abuse-prone tort law system.

While discounters have a stake in the passage of product liability reform legislation, some of the pending measures could backfire by creating more exposure for retailers.

A proposal offered by Rep. Thomas Luken, D-Ohio, for one, would hold product sellers responsible for damages "if the manufacturer cannot be brought into court or lacks funds to pay the judgment." Unfortunately, it would also create an unfair disincentive to buy from smaller manufacturers and foreign producers with no U.S.-based operations. This kind of reform discounters don't need.

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Discount Store News.

ANNUAL REPORT 1988

PART II: Merchandising & Productivity

Discount Industry Annual Report

PART II: MERCHANDISING AND PRODUCTIVITY ANALYSIS

Ladies' Wear Still Tops in Sales

Combined $28B Apparel Sales to Account For Almost One-Third of Full-Liners' Volume

Fourteen distinct product categories will generate nearly $86 billion of the projected $89.4 billion full-line discount department stores will ring up in sales this year.

Ladies' wear, as expected, will be the top volume-producing category, with $14.5 billion in sales at full-liners. With an average women's apparel department of 11,000 square feet, the average discount store will reap about $1.8 million in sales from its women's apparel department.

Housewares, including electric and personal care appliances, non-electric household products and ready-to-assemble furniture, will produce nearly $11.9 billion in sales for full-line discount department stores. Department size for all housewares will average 7,550 square feet and sales per store will hit nearly $1.5 million.

The next-highest sales categories at full-liners are projected to be hardware, including paint ($7 billion), children's wear ($6.8 billion), consumer electronics ($6.5 billion), men's wear ($6.4 billion) and health and beauty aids ($6.2 billion).

Automotives will generate $5.8 billion, toys,$4.5 billion, domestics,$4.2 billion, and sporting goods,$4 billion. The photo category, including film and cameras, will produce sales of $3.1 billion. Stationery, including non-electronic home office products, back-to-school and greeting cards, will generate $2.8 billion, followed by jewelry with $2 billion.

Other products, such as food and snacks, pets and accessories, tobacco, building supplies and the like, will total $3.7 billion in sales this year.

The 14 categories shift dramatically when ranked by the amount of sales they generate per square foot of selling space. The photo category, given less space by many discounters, leads in sales floor productivity. High priced camcorders, often included in this figure, will help push the department to over $750 per square foot in sales. Other categories that yield high sales per square foot of selling space will be jewelry ($384.62), consumer electronics ($353.26), and automotives ($315.22).

The fastest turning department is health and beauty aids. Other high-turn categories include men's and women's apparel and stationery. The merchandise categories that turn the slowest are sporting goods, hardware and jewelry.

In terms of gross margin, the leaders will be: jewelry (42.8 percent), stationery (41.7 percent), domestics (34.2 percent), men's wear (33.1 percent), women's wear (32.3 percent), hardware (32.3 percent), and children's wear (30.6 percent).

Altogether, the 14 categories average an annual turn rate of 3.31 times and a gross margin of 28.95 percent.

DSN projects full-line discount store productivity by merchandise category based on its annual projections of discount store sales.

This special section is the second part of *DSN*'s annual state-of-the-industry report. Part I, which was presented in the July 3 issue of *DSN*, provided information on the top 150 discount department stores, membership clubs, off-price apparel chains, catalog showrooms and other types of specialty chains in the nation, the leading variety store chains, top general merchandisers, deep discount drug chains, and electronic and home shopping services.

Part II: Merchandising and Productivity Analysis begins on page 36 with special merchandising reports on the 14 top discount department store product categories. *DSN* examines the sales productivity of the top 150 discount chains on page 57 and provides a look at discount department store, membership club and catalog showrooms' store count by region and state, including the top chains in each region and state, on page 59.

The special report, compiled by the entire *DSN* staff, concludes with special profiles on the leading full-line discount department store chains.

Ladies' wear will be the top volume-generating category at discounters this year, with sales projected at $14.5 billion at full-line discount stores. (DSN photo)

Full-Line Discount Store Productivity

Category	Discount Volume (In Billions)	Sales Per Store (In Thousands)	Dept. Size (In Sq. Ft.)	Annual Sales Per/ Sq. Ft.	Annual Turns	Percent Initial Markup	Percent Gross Margin
Ladies' Wear	$14.5	$1,813	11,000	$164.77	4.0	48.9%	32.3%
Housewares	11.9	1,488	7,550	197.02	3.4	35.4	24.2
Hardware	7.0	875	4,500	194.44	2.2	40.2	32.3
Children's Wear	6.8	850	7,500	113.33	3.5	44.2	30.6
Consumer Electronics	6.5	813	2,300	353.26	3.5	30.0	16.2
Men's Wear	6.4	800	6,500	123.08	4.1	46.7	33.1
Health & Beauty Aids	6.2	775	3,200	242.19	5.0	25.5	19.5
Automotives	5.8	725	2,300	315.22	3.2	34.0	25.5
Toys	4.5	563	2,500	225.00	3.1	36.7	26.8
Domestics	4.2	525	4,000	131.25	2.5	43.8	34.2
Sporting Goods	4.0	500	2,500	200.00	2.0	37.1	28.4
Photo	3.1	388	500	775.00	3.8	25.5	18.0
Stationery	2.8	350	2,000	175.00	4.0	46.4	41.7
Jewelry	2.0	250	650	384.62	2.1	52.5	42.8

Other categories totaled $3.7 billion.
Housewares includes personal care, small electrics, non-electrics and RTA furniture.
Hardware includes paint.
Children's includes girls', boys', infants' and toddlers' wear.

Source: DSN *research*

Annual Discount Industry Report
Part II: Merchandising and Productivity Analysis

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APPAREL

WOMEN'S/MEN'S/CHILDREN'S/HOSIERY/JEWELRY & ACCESSORIES/UNDERWEAR/INTIMATE APPAREL

Discount Chains Look for An Edge

ANNUAL REPORT PART II

As the importance of apparel—and the margins that this category produces—continues to grow, competition among general merchandise discounters is heating up.

While there remains plenty of room for sales growth for everyone—especially when selling space devoted to apparel continues to increase at many discounters—there are definite signs that discounters are maneuvering for any advantage that is possible.

The opening of the brand floodgates has also heightened competition. Practically every national jeans brand, for example, is now readily available to discounters, as are such former department and specialty store brands as Manhattan, Campus and Brittania.

Along with an increase in the importance of brands has come a greater emphasis on upscale merchandising presentations and the development of exclusive licensing deals and/or private labels that help retailers differentiate themselves from their competition.

Women's Wear Is Back

The women's apparel category has bounced back nicely from the flat 1987 and 1988 period.

The drop-off had never been as serious for most discounters—or even off-pricers like T.J. Maxx and Marshalls—as it was for department stores and specialty stores like The Limited and The Gap.

However, there is still no one particular look or item driving the women's wear business, which has some executives nervous. Styles have simply gone slightly more conservative and career-oriented.

Nonetheless, the general feeling is that fall and holiday will be strong seasons for women's apparel. The inventory situation at most discounters right now is better—meaning leaner—than this time last year.

The biggest recent news in the women's wear category at discounters is in the area of merchandise presentation—specifically, the shop-within-a-store concept.

Caldor was the first to experiment with a Gitano shop earlier this year, and right now such discounters as Ames, Venture and Jamesway are adding anywhere between one and six of the shops.

The idea, again, is differentiation. In addition to any significant store label programs, discounters are also seeking to differentiate themselves by going with shop concepts and boutique groupings.

Practically any discounter who wants it can carry Lee, Cape Cod, Chic, Land's End and Gitano in its women's wear department. But to have a special single-vendor shop sets off the store from the rest.

In private label, no discounter has been able to maximize and promote a store label the way K mart has with its Jaclyn Smith collection.

In launching Bobbie Brooks early last year, Wal-Mart tried to develop the label and position it similarly to K mart's Jaclyn Smith, but, at least so far, Wal-Mart hasn't been able to make the line as distinctive or as appealing to consumers.

There's also talk that Target is toying with the idea of debuting a major store label in women's wear sometime soon.

The discounter has already developed a small line of Greatland/Will Steger-licensed women's wear in sweaters, printed sweatshirts, knit tops and corduroy pants.

Ladies' wear is the largest volume producing category for full-line discounters. This year, full-liners are expected to garner $14.5 billion in ladies' wear sales. The department will turn an average of 4.0 times annually and gross margin will average 32.3 percent.

Off-price apparel chains will add another $6.1 billion to the total $20.9 billion in ladies' wear sales through discount mass market outlets this year.

The even-keeled men's wear category at most general merchandise discounters continues its smooth sailing.

Infant' and toddlers' apparel—pictured above at this Meriden, Conn., Bradlees unit—is one of the stronger categories in all soft goods. Knit tops, including prints, shown on display at Twin Valu in Cuyahoga Falls, Ohio, are contributing to solid spring/summer business in men's wear. (DSN photos)

This category hardly ever sees the dramatic peaks and valleys that its female counterpart subjects itself to, but that doesn't mean men's wear buyers can sit back and just keep reordering the same product season after season.

With Brittania, McGregor, Manhattan, Campus and Reed st. James, as well as Levi's, Wrangler and Rustler, brands are plentiful in this category.

Discounters are beginning to merchandise certain stylish brands—like Brittania—as if it were women's wear.

Target recently rolled out a significant chainwide, table-merchandised Brittania program. And Wal-Mart is expected to do similar things with Brittania product before year-end.

New Men's Wear Line

In addition, Target will soon be offering a significant Greatland/Will Steger men's wear line, including sweaters, sweatshirts, T-shirts, sport shirts, fleece coordinates, pants and a variety of outerwear.

Men's wear is a $6.4 billion sales category for full-line discounters. This year, the department will turn 4.1 times annually and achieve an average gross margin of 33.1 percent. Another $3.1 billion in men's wear will be rung up at off-price apparel specialty chains.

Children's wear—which includes both infants' and toddlers'—has been selling strongly as discounters appear to be stepping up both branded and

(Continued on page 38)

Apparel: $37.2 Billion

Ladies' Wear $20.9 Billion	
Full-Line Discounters	$14.5B
Catalogers	$0.3B
Specialty Discounters	$6.1B
Full-Line Discount Store Productivity	
Sales	$14.5B
Sales Per Store	$1,812,500
Dept. Size	11,000 Sq. Ft.
Sales Per Sq. Ft.	$164.77
Turns	4.0
Initial Markup	48.9%
Gross Margin	32.3%

Men's Wear $9.5 Billion	
Full-Line Discounters	$6.4B
Catalogers	NA
Specialty Discounters	$3.1B
Full-Line Discount Store Productivity	
Sales	$6.4B
Sales Per Store	$800,000
Dept. Size	6,500 Sq. Ft.
Sales Per Sq. Ft.	$123.08
Turns	4.1
Initial Markup	46.7%
Gross Margin	33.1%

Children's Wear $6.8 Billion*	
Full-Line Discounters	$6.8B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$6.8B
Sales Per Store	$850,000
Dept. Size	7,500 Sq. Ft.
Sales Per Sq. Ft.	$113.33
Turns	3.5
Initial Markup	44.2%
Gross Margin	30.6%

**Children's includes girls', boys', infants' and toddlers' wear.*
NA—not available

Source: DSN research

ANNUAL REPORT: PART II/JEWELRY

Fresh Themes, Colors Brighten Jewelry Sales

Jewelry: $5.4 Billion	
Full-Line Discounters	$2.0B
Catalogers	$2.6B
Specialty Discounters	$0.8B
Full-Line Discount Store Productivity	
Sales	$2.0B
Sales Per Store	$250,000
Dept. Size	650 Sq. Ft.
Sales Per Sq. Ft.	$384.62
Turns	2.1
Initial Markup	52.5%
Gross Margin	42.8%

Source: DSN research

Freshness in the apparel industry helped propel jewelry sales at many discounters across the country last year.

After a lackluster 1987, when numerous apparel styles floundered and flopped at retail, new fabric treatments, colors and themes helped to revitalize the category.

Jewelry, in turn, benefited from the revival, as pattern mixes, Southwestern influences, tropical prints and ethnic looks proliferated.

Dots, checks and stripes—singularly or mixed—decorated earrings and necklaces, belts, handbags and scarfs. Bright tropical prints and jungle themes complemented the geometric patterns, and stood alone as well.

The past year also saw jewelry turn to a Western theme. Unlike the past, however, the influence this time was more Tex-Mex, as jewelry sported a cross between Indian, Western and Guatemalan looks.

Additionally, jewelry took on a gilded craftware feel, that combined ethnic looks with a hand-crafted impression. On pins, earrings and necklaces the folklore theme represented worldwide influences from such areas as Asia, Africa and the Mediterranean. The ethnic influenced-jewelry worked especially well with apparel's batik prints, tie-dyed looks and olive drabs.

And, working with these varied jewelry looks were also nostalgic and romantic themes. Crystals, gemstones, moons, stars and charms combined to supply discounters with near "Beauty and the Beast" mystical looks.

The '60s influence continued to hold strong during the year, too, with a definite turn toward surf-inspired brights. Channel looks and traditional classics also kept their place at most discounters.

Watches, too, played an important role in many jewelry departments. No longer desired by consumers to be merely a functional piece, watches took on more character and uniqueness during the past year.

Although the introduction of Swatch watches and ensuing knockoffs in the past few years had created much of this appeal, not until recently were consumers able to start finding many of these department store looks at the discount store level.

For holiday, watches were studded with rhinestones and chip diamonds, while year-round looks included retro 1930s styles, moon faces, textured leather bands and chain bracelets in gold and silver.

In many instances, watches became the focal jewelry point, as many women opted for a less-is-more look with their accessories.

And although there were a few exceptions, most discounters tried to keep their fashion watches under $100.

Traditional and basic watches also supplied discounters with a stable and less fad-intensive selection. Generally under $50, the basics came on strong for such traditional times as Father's Day, Christmas and graduation.

In both watches and general jewelry advertising, discounters turned this past year to varied techniques.

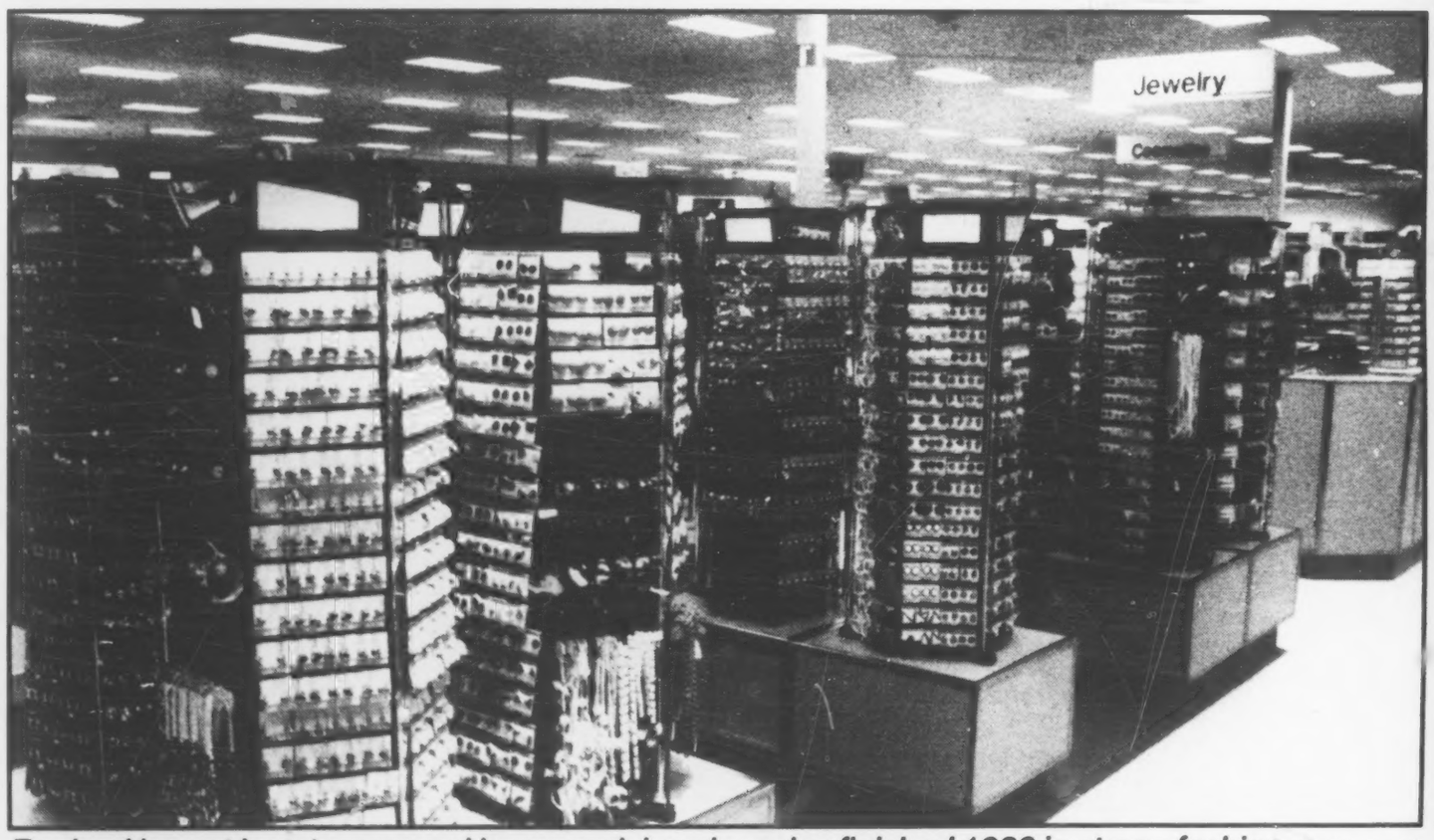
At Minneapolis-based Target, major promotions included running popular brands and categories at 25 percent off, while at Canton, Mass.-based Hills the advertising centered around everyday low pricing.

For Henderson, N.C.-based Rose's, the chain aggressively advertised its jewelry department after completing a major remerchandising program last fall.

Going forward, *DSN* projects that full-line discount stores will record $2 billion in jewelry sales, while catalog showrooms capture the bulk of the volume with $2.6 billion in sales this year.

At full-line stores, the average jewelry department measures 650 square feet, achieves an annual turn ratio of 2.1 times and a gross margin of 42.8 percent.

Key jewelry styles now on the horizon show an expansion of many of the past year's looks. Romantic and nostalgic styles, with simple yet exquisite lines and pearls, will play off textured and multi-finished classics. Fun, low-end looks will also proliferate at most discounters. Fad items like Batman digital watches under $10 will add novelty to the category.



Revived in part by a turnaround in apparel, jewelry sales finished 1988 in strong fashion. (DSN photo)

Discount Chains Look for An Edge

(Continued from page 36)

private label product. Also, licensed product is more important as of late than it was several years ago.

Discounters have always had a stronger children's wear franchise than men's or women's, due to price sensitivity.

However, discounters are being pressured into offering fashion-for-a-price because of the competitive heat Kids "R" Us is turning on the general merchandise discounters.

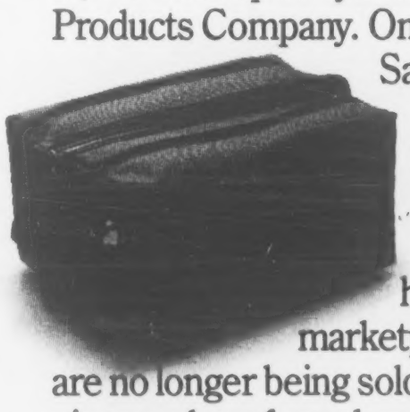
Right now, the licensed product to have—at least for older boys—is, of course, "Batman." Younger kids are taking to the movie, "Honey, I Shrunk the Kids," and apparel licensed product off this Disney Studio release might be more important than originally anticipated. Coming for Christmas—and expected to make a licensing impact—is a full-length animated feature of "The Jetsons."

An illustration of the drive to obtain something exclusive that can be successfully marketed is Montgomery Ward's recent deal for Raggedy Ann and Andy licensed apparel from infants' to boys' and girls' in many categories. Sears has been successful with its Winnie-the-Pooh and McKids lines, both exclusive to Sears, and Ward felt compelled to fight back.

Full-line discounters will rack up $6.8 billion in children's wear sales this year, achieving an annual turn rate of 3.5 times and an average gross margin of 30.6 percent.

What's ours is ours.

The two items shown in this ad are items developed by Amity Leather Products Company. One of the items is a Saddlebag Travel Kit while the other is a Safari Kit. Several knockoffs or imitations of these items have appeared in the marketplace. Most of them are no longer being sold because we have vigorously enforced our property rights against imitations.



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Many of Amity's products are the subject of patents and patent applications. We are determined to ensure that our patent and trademark rights are not violated.

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HOME PRODUCTS

HOUSEWARES / DOMESTICS / PHOTO / CONSUMER ELECTRONICS / HOME OFFICE / RTA FURNITURE

Ensembles Key to Housewares

Housewares*: $13.3 Billion

Non-Electrics $8.0 Billion	
Full-Line Discounters	7.3B
Catalogers	$0.7B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$7.3B
Sales Per Store	$912,500
Dept. Size	6,000 Sq. Ft.
Sales Per Sq. Ft.	$152.08
Turns	3.3
Initial Markup	38.6%
Gross Margin	30.4%

Personal Care $3.0 Billion	
Full-Line Discounters	$2.8B
Catalogers	$0.2B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$2.8B
Sales Per Store	$350,000
Dept. Size	750 Sq. Ft.
Sales Per Sq. Ft.	$466.60
Turns	3.5
Initial Markup	34.3%
Gross Margin	21.1%

Electrics $2.3 Billion	
Full-Line Discounters	$1.8B
Catalogers	$0.5B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$1.8B
Sales Per Store	$225,000
Dept. Size	800 Sq. Ft.
Sales Per Sq. Ft.	$281.20
Turns	3.5
Initial Markup	33.2%
Gross Margin	21.1%

*Includes small electrics, personal care, non-electrics and RTA furniture.
NA—not available

Source: DSN research

ANNUAL REPORT PART II

Growth in housewares this year will come from the same types of products that fueled sales in 1988: decorative accessories, tabletop merchandise, and closet storage. The major trend that will continue this year is the development by retailers and vendors of fashion-oriented, coordinated ensembles of goods.

An example of this trend was K mart's innovative marketing program to include a wide range of home-related products under its Martha Stewart label. Other retailers, working from suggestions offered by the Center for Homewares Design, also played variations on this theme. And, more and more makers of lamps, clocks, flatware and other home goods are now licensing dinnerware patterns to create an ensemble of merchandise.

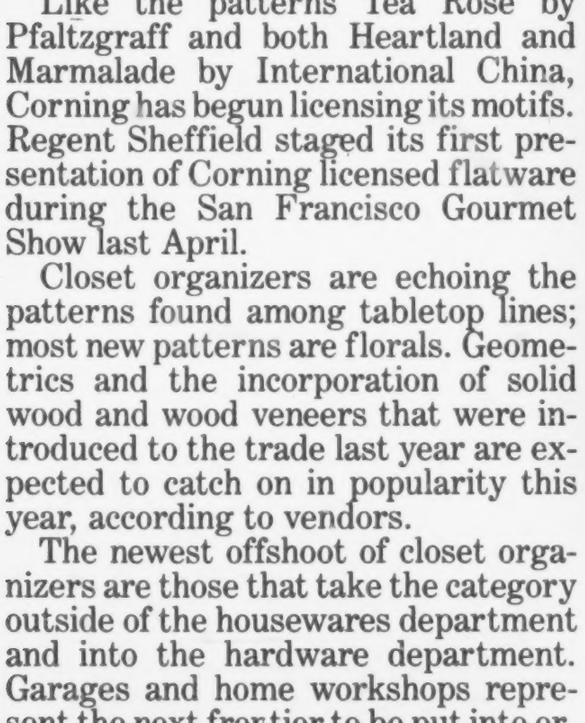
Even within individual manufacturing companies the trend toward promoting a coordinated look is evidenced by new packaging campaigns. An example is the CROSS program launched last year by Anchor Hocking glass which grouped the various pieces into collections and stimulated add-on sales by picturing the completed ensemble on the back of product boxes.

Like the patterns Tea Rose by Pfaltzgraff and both Heartland and Marmalade by International China, Corning has begun licensing its motifs. Regent Sheffield staged its first presentation of Corning licensed flatware during the San Francisco Gourmet Show last April.

Closet organizers are echoing the patterns found among tabletop lines; most new patterns are florals. Geometrics and the incorporation of solid wood and wood veneers that were introduced to the trade last year are expected to catch on in popularity this year, according to vendors.

The newest offshoot of closet organizers are those that take the category outside of the housewares department and into the hardware department. Garages and home workshops represent the next frontier to be put into order through modular shelving, pegboards and racks, manufacturers said.

Some retailers, like Target, have introduced a private label program to its closet organizer category, working with several vendors to produce a coordinated collection. Many retailers are planning to increase their commitment to the category including Rose's, Harts and others.



Keeping with the trend of coordinated ensemble goods is K mart's Martha Stewart label.

Conversely, ready-to-assemble furniture is still selling strong, but not as ensembles. The ensemble presentation is not the hot selling point in the category; consumers still tend to buy each piece according to function, not because they plan to create a unified look with additional ready-to-assemble purchases.

The exception, however could be found among home office RTA where coordinated pieces are almost mandatory in order to serve this function. Home office furniture units are frequently designed to work in concert with other units in order to be effective. The workstation will have an uneven surface if the printer stand, desk, corner unit, bookcase, file cabinet, etc., are not made with identical height and width specifications. Home office continues to be singled out by both retailers and manufacturers as the growth segment of the RTA furniture business.

Home office units are the growth area in RTA. A steady stream of new products by vendors is keeping the category fresh. (DSN photos)

Black was the main attraction among appliance introductions. The allure of a high-tech black/chrome decor for the kitchen appears to be catching on, perhaps due to the growing number of men who are finding their way into the kitchen when their wives work late. Black is also returning to popularity among personal care appliances.

The year's hottest new products fell under the broad heading of health: water purifying systems, massage aids like those from Clairol's Family Practice division and new innovations like the denture cleaning appliance from Denta Plus.

Microwave oven sales continue to be sluggish due to lack of demand. The sales upswing, sparked by replacement unit sales, is expected to be as much as five to 10 years down the road. Early indications suggest replacement sales—when they materialize—will be for upgraded models that offer a wider spectrum of capabilities.

Changes influencing the growth of the housewares industry last year and into the 1990s will not only be the much spoken of market consolidation through mergers. As discounters and specialty stores continue to go nearly head-to-head on all but very upper-end goods, dollar store operators are likely to fill the void for commodity housewares merchandise sales.

Full-line discounters will face increased competition on housewares merchandise, not only due to specialty stores, catalog showrooms and membership warehouse clubs. The burgeoning manufacturer-operated factory outlet stores have become increasingly popular. The high-end china, glass and flatware vendors are no longer the only ones running these types of off-price stores.

Serious Inroads in Sales

Discount store housewares suppliers like Corning and Remington are now selling their own products and have the potential to make serious inroads on discounter sales, even if caution is taken in positioning these stores far from the K marts, Wal-Marts and Targets they supply. Consumers are willing to travel many extra miles to go to a factory mall, based on customer shopping surveys at these malls.

The political unrest in China is expected to remain on the minds of retailers and manufacturers, especially as the fourth quarter selling season approaches. While some placed their orders far enough in advance to receive the finished goods or materials required to take them through the end of 1989, many retailers have not. The housewares industry is not heavily dependent on China for most of its products, but there are many vendors who would be seriously hurt.

Total housewares industry sales through discount channels are projected to be $13.3 billion in 1989. Discount department stores will sell $11.9 billion worth of housewares. Another $1.4 billion will be sold by catalog showrooms.

At full-liners, housewares are projected to turn 3.4 times annually and achieve a gross margin of 24.2 percent.

ANNUAL REPORT: PART II/PHOTO and DOMESTICS

New Films, Mid-Priced Cameras Lift Sales

For the first time in years, a revolution in film technology is more than just a public relations catchphrase. The major piece of news, still video, is of course not so much film as "media," but its impact, for the short term, should be less profound than that of a couple of new film products—Reala from Fuji and OneFilm from Polaroid.

Reala, previewed at the February Photo Marketing Association show, just hit the market, and its flexibility and color trueness should make it a hit in advanced amateur and some professional circles. The film, which is expected to retail at slightly more than conventional products, includes a new color layer that negates the effects of fluorescent light in indoor situations.

On a mass market note, however, its main selling point is a far deeper, richer and more realistic representation of the color spectrum, resulting in soft, true skin tones and bolder colors.

While there really isn't much new about OneFilm, it represents a clever marketing angle. Most amateur photo bugs remain confused by the bewildering variety of films on the market—high-speed films, indoor films, outdoor films, low-light films and so on.

Most consumers would, frankly, prefer to use just one kind of film, and some industry observers question the need for the plethora of films currently on the market. However, most film makers are married to the "film for every condition" concept, leaving a large niche open for Polaroid. That niche, according to Polaroid, is the "please don't make me think" brigade, and there are a lot of them out there.

Apart from film, the big news among discounters continues to be the latest generation of mid-price autofocus cameras. However, inexpensive 35mm point-and-shoot cameras have come on strong, with prices under $20, and they could propel a booming film and processing market.

Photo at Target, Eagan, Minn.: Sales of inexpensive 35mm point-and-shoot cameras, some priced under $20, have picked up as of late.

Overall, the photo business at full-line discounters seems to be stagnant, and even declining at certain chains. Discounters like K mart and Wal-Mart and hypermarkets like Auchan and Twin Valu have turned photo into major statements, but several discounters seem to have de-emphasized the department.

Photo $3.4 Billion	
Full-Line Discounters	$3.1B
Catalogers	$0.3B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$3.1B
Sales Per Store	$387,500
Dept. Size	500 Sq. Ft.
Sales Per Sq. Ft.	$775.00
Turns	3.8
Initial Markup	25.5%
Gross Margin	18.0%

NA—not available

Source: DSN research

Video seems to be making inroads into the photo market. Camcorders have replaced cameras for a significant portion of the consuming public, and the still video camera has the potential to turn that trend into a revolution.

Camera and film makers point out that no other media can truly replace film. Although prints can be made from still video images, they are a far cry from the quality of 35mm prints.

A saving grace for the industry might be automated semiprofessional cameras like Minolta's Maxxum. Offering the artistic quality and options of an SLR but with the ease of operation of less sophisticated cameras, these new models could bring new photographers into the market.

The same goes for a round of promotions aimed at children (several new easy-to-use models, including ones from Concord and Keystone), the youth market (Polaroid's Fling), the casual photographer market (Fuji and Kodak disposable 35mm cameras), the elderly and just about any other niche market imaginable. All these campaigns are aimed at luring new users into the market, and to a limited extent, they seem to be working.

The number of rolls shot each year has risen steadily, and is predicted to surge this year. However, since many pictures are being taken with less expensive cameras, the photo market as a whole is just holding steady at best.

Kodak, one of the most familiar brand names in the discount industry, has continued to hold its dominant market share at discount stores, despite an ever-increasing challenge from Fuji, which has made inroads among consumers.

This year, the total photo market at mass merchandisers is expected to reach $3.4 billion, reflecting a decline in camera price points. Discount department stores will garner $3.1 billion from the photo category in 1989, while catalog showroom chains will nab an estimated $0.3 billion.

Film sales should hold steady or rise slightly. Gross margin should rise very slightly, again due to the sales of cameras that are less expensive, but marginally more profitable per dollar.

At full-liners, photo products will turn 3.8 times annually and achieve a gross margin of 18 percent.

Profits Swell as Domestics Upscaling Spreads

Domestics has assumed a new role at discount stores. With hard lines profit margins sinking slowly, soft lines has taken on a much more important role among discounters, and home fashions has become a major profit center.

With Martha Stewart ascendant at K mart, and Target upscaling even further than its traditional upmarket mass position, two of the discount industry's "Big Three" have made a major public position in home fashions.

Wal-Mart, which has kept a lower profile in the department, seems to be upgrading as well. The chain's new vendor store in Wisconsin, for instance, features a revamped, fashion-forward department designed by Cannon Mills, and vendors this spring reported that Wal-Mart buyers were much more interested in fashion goods than was the case in the past.

Upscaling has been a major topic of conversation for at least two years, but it is a reality today. Target, as mentioned, has dealt in more upmarket goods for several years, but in the past 18 months, chains as diverse as Fishers Big Wheel, Caldor and Ames have all turned their attention to domestics.

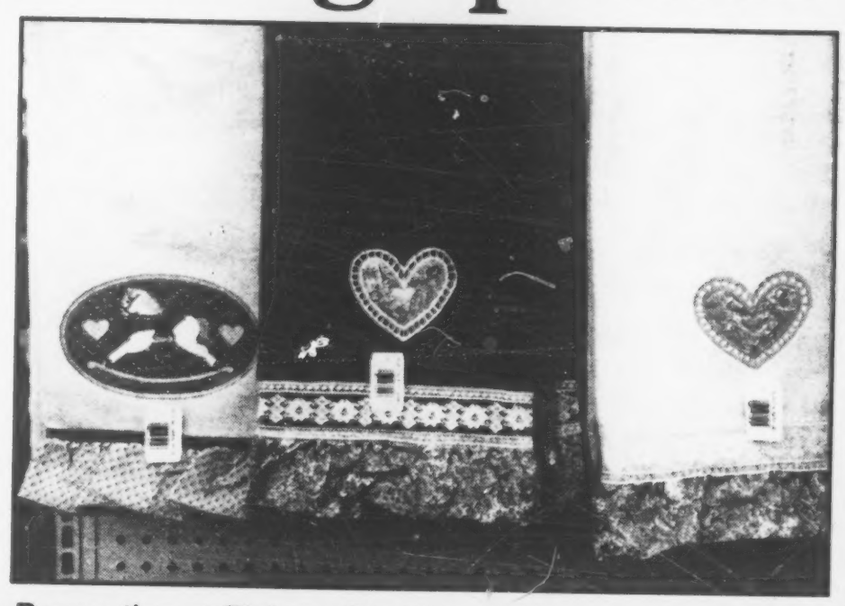
Big Wheel's adoption of a front-and-center power department may have been the most dramatic move among full-line discounters. Outgoing president Stan Brenner brought the idea over from discounter Prange Way, and the installation of a fully coordinated, department store-like home fashions department has been a hit with Big Wheel's small town consumers.

In the most recent domestics market, Target was reportedly buying high-fashion comforters printed on black grounds, a major departure for a discount store. Suppliers as a whole were showing much more contemporary, upscale goods to their discount accounts, primarily, they stressed, because discounters are beginning to feel comfortable marketing fashion.

That contrasts sharply with the situation only three years ago, when discounters felt, to a large extent, that only tried-and-true country looks could sell to conservative discount shoppers.

While country is still a major force, the demographic differences between discount and department store customers have almost disappeared. According to research conducted by *DSN's* special lifestyle merchandising supplement, *HomeMarket Trends*, shoppers in most middle class income ranges are no more likely to shop one outlet than the other. Sears, Montgomery Ward and JCPenney remain the most powerful retailing segment in home fashions, but discounters have closed the gap there as well.

This ties in with several demographic and psychological trends. One in particular has significant bearing on the improved performance of discounters. Americans as a whole are becoming more and more comfortable with their ability to decorate. In short, they trust their tastes, and don't need as much reinforcement as in the past.



Domestics at Fishers Big Wheel, New Castle, Pa.: Upscale touches such as hand-stitched towels are becoming a common sight at full-liners. (DSN photos)

Service, therefore, is no longer as important as it once was and selection is much more so. Also, suppliers have made brand names formerly reserved for department stores available to discounters, or at least have produced attractive discount versions of their upstairs looks. A prime example might be Dundee's production of "Palatial," an almost perfect duplicate of its coveted "Centennial" line of plush bath towels.

Discounters are still very price-conscious, but Target and other chains have successfully pushed their top price limit upward over the past two years. With the change in demographics, shoppers are a bit less price-resistant than before, allowing discounters more freedom in adjusting their merchandise mix.

Sales at discount department stores are projected to reach $4.2 billion dollars this year. This is one of the most dramatic projected jumps in any discount department, yet it could prove to be a very conservative projection.

Perhaps sensing the increased strength of their discount competitors, Sears and Montgomery Ward have developed new upscale home fashions formats, and both mass merchandisers seem to have been successful.

Strangely, the past year has not been kind to home fashions specialty off-pricers. Branden's, the Dayton Hudson off-price chain, folded in early 1989, after getting off to a fast start a year earlier. Home Front was sold, and ended up closing several stores.

Domestics sales through specialty discounters will hit $1.1 billion this year, according to *DSN* estimates.

At full-liners, domestics will turn 2.5 times annually and achieve a gross margin of 34.2 percent.

Domestics $5.6 Billion	
Full-Line Discounters	$4.2B
Catalogers	$0.3B
Specialty Discounters	$1.1B
Full-Line Discount Store Productivity	
Sales	$4.2B
Sales Per Store	$525,000
Dept. Size	4,000 Sq. Ft.
Sales Per Sq. Ft.	$131.25
Turns	2.5
Initial Markup	43.8%
Gross Margin	34.2%

Source: DSN research

ANNUAL REPORT: PART II/CONSUMER ELECTRONICS

CE to Show Modest Growth as Prices Firm

For a category given up for dead a few years ago, consumer electronics seems to be turning around. Last year, CE chains expanded rapidly and full-line discount stores started beefing up their CE departments. This year, sales through discount and mass market channels are projected to increase modestly to $13.3 billion, and expansion should continue through 1990.

Of course, most of the gains have been made at the expense of other outlets. At least two major CE chains are in serious danger, JCPenney got out of the business last year, many discount chains have deemphasized the category, and mom and pop operations nationwide are struggling.

At the same time, however, Silo and Circuit City have stepped up their expansion plans, Sears will open some 300 Brand Central departments by year-end, Montgomery Ward has upscaled its Electric Avenue CE power departments, and regional chains like The Good Guys have established themselves as profitable, growing businesses.

The growth has come in the face of product shortages, declining prices, bitter competition, and the lack of any one superhot product, like yesteryear's videocassette recorder. With increased interest in larger-screen TVs, audio components, value-added videotape recorders, camcorders, computers and many other products, prospects, at least for the chosen few, are much brighter than they have been since the "death" of the VCR and the microwave oven.

The hot home office category will also play a part in the discount CE field. As the potential in the category has been realized, first CE chains, then general discounters have moved in. Several computer and fax machine suppliers have recently noted that, long-term, national CE specialty chains like Circuit City and Silo are their most effective outlets, and that discount stores could also play a part in these emerging businesses.

CE has also seen a stabilization of prices, which has stemmed the decline of margins somewhat. Consumers, despite having become accustomed to ever-decreasing prices on electronic goods, should not be put off too badly. While prices have solidified in many areas, most new products now contain added features. For instance, a remote color TV probably sells for about the same amount as a non-remote model last year.

That trend was perhaps the major story at this summer's Consumer Electronics Show in Chicago, where buyers said that while there was relatively little in the way of new and revolutionary introductions, the wide availability of value-added products almost made up for the lack of innovation. "I'm seeing a lot of very saleable product," said one buyer, in a very typical comment.

Along with strong home office and video sales, the industry should see a rebirth of the audio component business. Perhaps because of the popularity of enhanced digital equipment (CD players, most noticeably), sound quality has become more important to consumers. Retailers such as Tops and Silo have been quick to pick up on the trend, but full-line discounters, generally specialists in inexpensive rack systems, have started adding components as well.

While growth in videotape has more or less stalled, audio tape seems to be rallying, particularly high-end chrome and metal formulations. With the price war over in audio tape, manufacturers have turned to value-added promotions, like Fuji's recent inclusion of a sampler compact disc with five-tape bricks and Sony's offer of a three-issue subscription to *Rolling Stone* magazine with a purchase.

The result has been steadily growing sales, mainly at the high end. Full-line discounters, however, seem to have been slow to move into the market, particularly in offering five- and 10-tape bricks.

Overall, specialty retailers, as in most categories, seem to be making the largest gains in the CE market. Because of the high-tech, brand-oriented customer the category attracts, those who specialize and make a considerable inventory investment tend to prosper. On the other hand, retailers like Wal-Mart, which offers a limited selection of very sharply priced most-wanted items, can make a major impact.

Another major impact will be made by Sears' and Ward's power departments, which will add some 1,200 highly competitive retail locations to the CE scene. With well-advertised prices becoming more common, and the "we'll beat any competitor's price" promise almost standard, the CE consumer will become ever more educated and price-conscious.

And that could mean another round of the price wars of the recent past. And, probably, another round of chain failures and retrenchments.

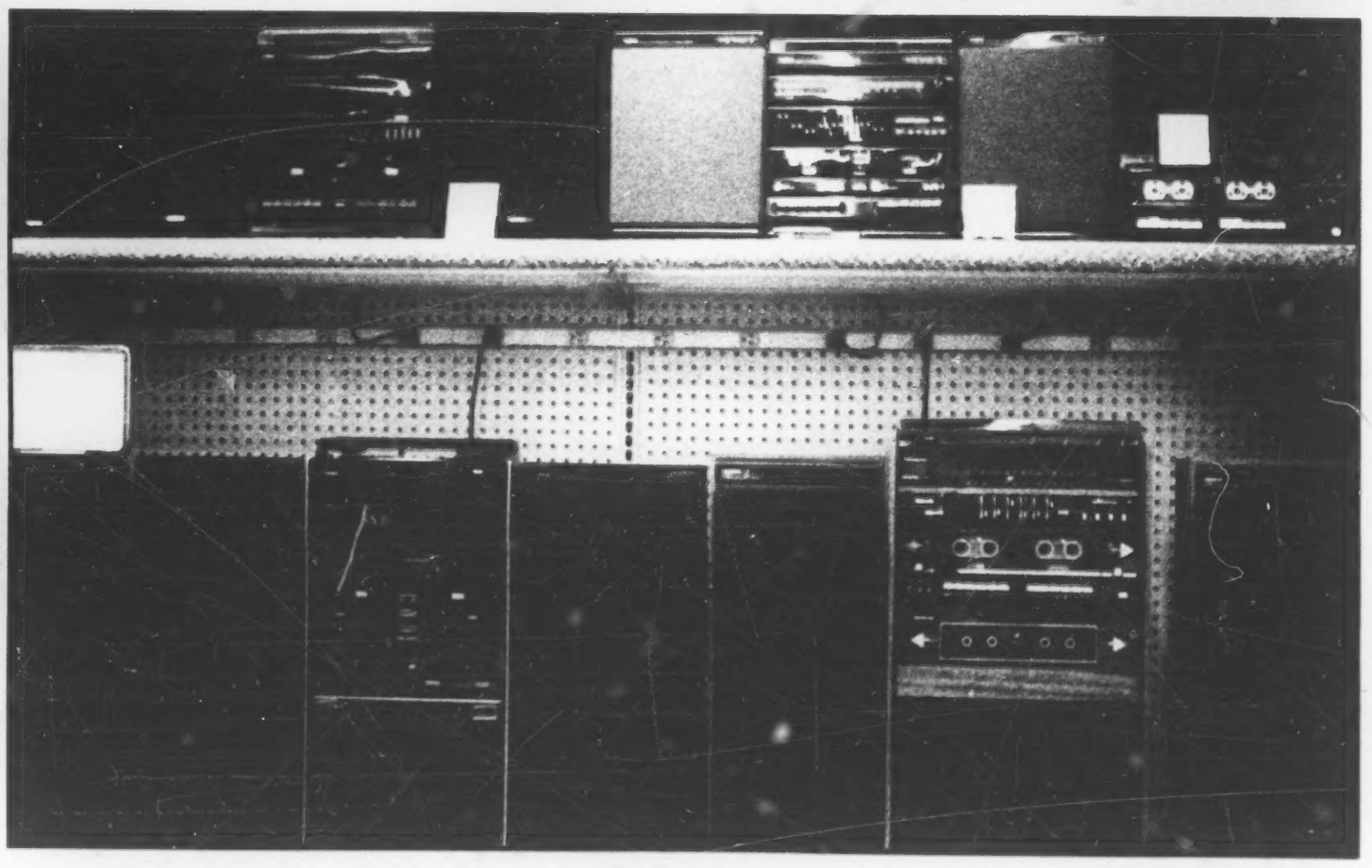
This year, discount stores should ring up $6.5 billion in CE sales. Specialty discounters will garner $5.9 billion, while $0.9 billion in CE business will be done by catalog showroom chains.

At full-liners, CE will turn 3.5 times annually and achieve a gross margin of 16.2 percent.

Consumer Electronics $13.3 Billion	
Full-Line Discounters	$6.5B
Catalogers	$0.9B
Specialty Discounters	$5.9B
Full-Line Discount Store Productivity	
Sales	$6.5B
Sales Per Store	$812,500
Dept. Size	2,300 Sq. Ft.
Sales Per Sq. Ft.	$353.26
Turns	3.5
Initial Markup	30.0%
Gross Margin	16.2%

Source: DSN research

CE at Ames, Winsted, Conn.: Sales of audio tape (right) have been picking up steam, particularly high-end chrome and metal formulations, while growth in videotape has slowed. The trend toward adding components to inexpensive stereo rack systems (bottom) is accelerating among full-liners. (DSN photos)



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Higher-End Goods to Push Sales

Stationery Will Gain from High-Margin Quality Home Office and Fashion School Products

ANNUAL REPORT PART II

The good news at discount department stores is that higher-margin products, such as quality home office supplies and fashionable school merchandise, will account for most of the sales growth in the stationery department this year.

Commodity stationery products will continue to be a cutthroat business, offering slim margins to discounters as competition intensifies from the growing office supply megastore chains. Through office supply chains, membership warehouse clubs and some discount department stores like Wal-Mart that are targeting this business, sales of multi-pack and higher-count packages should grow in 1989.

With about 13 million businesses being operated out of homes, the home office category has become far and away the fastest growing segment of stationery department sales. And, sales of office products should continue to grow well into the 1990s, as the number of at-home businesses grows by about 1 million per year.

Many discount chains have only begun to reap the benefits of this growing business. Secaucus, N.J.-based Jamesway, for instance, recently added home office shops to its stores in urban markets, like Philadephia, while its rural stores maintain only a basic stationery offering.

To combat the increased competition from warehouse clubs, chains like Jamesway are adding more "sizzle and color" to the department, said Larry Fine, divisional merchandise manager, at a seminar earlier this year.

New, uniform packaging programs being introduced by many vendors will help draw traffic to the department and stimulate impulse sales. Many manufacturers are putting a more consumer look on the product packaging.

Similarly, prices on writing instruments are expected to climb as fashion becomes a stronger factor in this area. Where multi-pack pencils and pens, and cheap imported markers were the mainstays of the category in the past, new higher quality, high-fashion markers and highlighters are making an impact in this area.

Scarce supplies and soaring prices are causing problems in the paper area, forcing chains to "eat margins."

The flat office category, formerly dominated by items in the $1 and $2 range—such as typing paper and legal pads—is achieving its greatest gains from goods like file folder systems.

Stationery $2.8 Billion	
Full-Line Discounters	$2.8B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$2.8B
Sales Per Store	$350,000
Dept. Size	2,000 Sq. Ft.
Sales Per Sq. Ft.	$175.00
Turns	4.0
Initial Markup	46.4%
Gross Margin	41.7%

NA—not available *Source: DSN research*

Similarly, the flat school category is no longer dominated by commodities. Filler paper and theme books will continue to be top-selling items, especially at back-to-school time. But, out-of-season sales are being collected by discount stores in upgraded products, such as higher priced, more profitable wireless notebooks.

Additionally, the school business is not as dependent on risky—and often short-lived—licensed themes, such as Willow and Roger Rabbit, as in the recent past. Exciting new designs are dominating departments, creating more of a boutique look when merchandised with associated fashion goods. One distributor predicts that the hot covers of 1989 will be "Super Shades" and "Rad Dog" from Mead, "Neon Brites" and "Pearlites" from Plymouth, and Lisa Franks' designs marketed by Stuart Hall.

Upgraded quality and price points are also affecting the files and boxes category. Fire-resistant features are becoming the norm as typical price points rise from the $20 to $60 range, to as high as $120.

Full-liners will see approximately $2.8 billion in sales through their stationery and greeting cards department. Turns at full-liners will be 4 annually, while gross margins, on average, will be 41.7 percent.

Chains Expand Hardware to Nail Down Sales

After several years of heavy flirtation with apparel, mass merchants appear to be rediscovering the joy of merchandising hardware.

Venture, O'Fallon, Mo., expanded its hardware departments in February, along with sporting goods and automotives, in all 74 stores. The expansion added 4,000 more sku's in the three hard lines departments.

To make room for the increased merchandise, Venture shifted to high-impact merchandising, with planogramming increased to 72 inches from 54 inches. New 84-inch-high gondolas were installed throughout, with extra merchandise stored above to increase the visual impact. The chain invested about $5.5 million for the new fixtures.

Hardware* $7.1 Billion	
Full-Line Discounters	$7.0B
Catalogers	$0.1B
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$7.0B
Sales Per Store	$875,000
Dept. Size	4,500 Sq. Ft.
Sales Per Sq. Ft.	$194.44
Turns	2.2
Initial Markup	40.2%
Gross Margin	32.3%

**Includes paint*
NA—not available *Source: DSN research*

As part of its push into more tools, especially power tools, Venture added McCulloch brand chain saws.

In plumbing and bathroom accessories, Venture added Moen faucets, Flotec sump pumps and Town and Country water filters. Other brand hardware additions included GE door chimes, Belwith International cabinet hardware, Edison recessed light fixtures, Angelo lighting fixtures, interior, exterior and trac, and Rubbermaid's Workspace line of tool organizers.

Hills Department Stores, Canton, Mass., with its traditional orientation toward offering apparel and toys to predominately female shoppers, is attempting to build on that base by expanding hardware and other hard lines merchandise.

In February, for instance, Hills added a 6-foot run of ceiling fans in five sku's. Security hardware, motion detector floodlights in particular, is another hot category that Hills is chasing. The chain carries two sku's of motion detector lights from Intellectron in the $29.99 to $40 price range.

In the 35 former Gold Circle stores it acquired last year, Hills got 15 percent to 20 percent more space to devote to lawn and garden for bulky patio sets and gas grills. Gondola length in the converted stores is 28 feet, compared with 26 feet in previous Hills stores.

Because of all the rain this spring and summer, patio sets have been doing poorly. Resin chairs for less than $10 are the exception.

Look for further new offerings in hardware in the months to come, a Hills merchandising executive said. Citing competitive concerns, he declined to specify what they will be.

In its remerchandising, Sears is making paint and hardware one of its "power formats." Sears has just rolled out its Brand Central appliance power format, and hardware is expected to come sometime this summer.

Earlier this year, Sears began getting shipments of Dutch Boy paint, one of the new branded lines it will add to its private label offerings.

In plumbing and bath, Sears added Pollenex and Alson's brand of hand-held showers since beginning its test of branded merchandise last year. In addition, in 100 stores Sears has replaced private label towel bars, toilet paper holders and toothbrush holders made by Franklin Brass with brand products from the same vendor.

Patio furniture at Twin Valu, Cuyahoga Falls, Ohio: Unusually heavy rains this spring have depressed sales of outdoor resin furniture at many discounters. (DSN photos)

Vendors also expect Sears to fill in its Craftsman power tool line with brand tools from vendors such as Black & Decker, Makita and Milwaukee.

Also indicating greater emphasis on paint and hardware, Sears is increasing the size of its freestanding paint and hardware stores to a range of 7,000 square feet to 10,000 square feet, up from about 4,000 square feet. Sears will fill the extra space with builders hardware: plumbing, paint, tools and sundry supplies for professional plumbers, masons and contractors.

Sears started the year with 110 of the paint and hardware specialty stores and will add 50 to 75 in 1989 on top of 33 in 1988.

In *DSN*'s 1988 Top Brands survey, Stanley edged out Black & Decker, which had held the top spot for four years. Through its acquisition of Emhart Industries, however, B&D will be making its presence felt even more among discounters. B&D now can offer True Temper garden tools, Kwikset lock sets and Bostik adhesives.

In dollar volume, hardware is the third-largest category for full-line discount department stores, behind only ladies' wear and housewares. The department is projected to generate $7 billion in discount store volume this year, turn an average of 2.2 times annually and achieve an average gross margin of 32.3 percent.

ANNUAL REPORT: PART II/TOYS

Video Games Power Sales of Other Toys

In toy merchandising, the major story of the year arguably would be Nintendo's introduction of its "World of Nintendo" boutique concept, and attempts by retailers to capitalize on the video games craze.

Nintendo said that about 6,000 stores that retail toys—or half the total of 12,000 establishments—signed up to open "World of Nintendo" boutiques within three months of its introduction in January.

Child World, for example, has committed itself to putting Nintendo boutiques in more than 100 of its 163 stores and plans to have them established in all stores by next year. Toys "R" Us is rolling out boutiques in all its stores starting this month. And Lionel Leisure, operating Kiddie City stores, also plans a chainwide rollout.

K mart is testing Nintendo boutiques in two stores, and has signed a letter of intent to install them in its American Fare hypermarkets in Atlanta and, this fall, Charlotte, N.C. Chains such as Target, Bradlees, Caldor, Jamesway and Ames/Zayre have either begun tests or are planning boutique floor plans, Nintendo said. The problem for many of these chains is getting enough Nintendo products to meet their customers' demand.

Venture has not jumped on the Nintendo bandwagon yet, but plans to be aggressive in video games in 1990.

Wal-Mart is considering boutiques for its three hypermarkets, but, as of yet, has not taken an aggressive position in Nintendo. The chain rejected the boutiques for its discount stores.

As an indication why Child World went for World of Nintendo, president and chief executive officer Peter Hayes said that when Child World stores have Nintendo products in stock, sales of other toys do well. Conversely, when stores are out of stock in Nintendo, sales of other toys suffer.

By signing up for Nintendo's merchandising program, discounters can at least hope they will gain an edge in obtaining scarce Nintendo equipment and games. At the least, the boutique system will help them get the most out of Nintendo licensed products.

Nintendo licensed products run the gamut from T-shirts to bubble gum. Parents even can buy Nintendo system cereal, from Ralston Purina.

World of Nintendo boutiques average 150 square feet, although Child World is devoting more than 400 square feet of floor space. Of that space, about 20 percent is devoted to licensed products, Nintendo said.

Retailers either can buy special fixturing from Nintendo or modify their own fixtures with Nintendo signage and adapters. Buying the whole package can cost up to $7,500 per store.

Stuart's, Hopkinton, Mass., expects to have Nintendo boutiques operating in its 21 stores by back-to-school.

"It's common sense, good merchandising," said Phil Brescia, senior buyer for toys and video games. "Everything [from Nintendo] that hit the floor last year sold."

Nintendo gave no assurances that it will give priority on supplies of hardware and games to retailers that sign up for the World of Nintendo program, Brescia said.

But Nintendo let it be known that it "will support the people who support" the World of Nintendo concept, said Anne Seagle, senior buyer for portable audio and video games at Best Buy, Minneapolis. Best Buy is testing a 175-square-foot boutique in one store.

"You're never able to get enough Nintendo" hardware and games, Seagle said.

"I hope to get more product by taking on the boutique concept," Seagle said. In its promo brochures, Nintendo states, "Nintendo will make its best efforts to supply World of Nintendo."

"It's to our advantage to keep Worlds full of product," a Nintendo spokesman said.

Indicative of the hold that Nintendo has taken on the toy market, the Toy Manufacturers of America began for the first time last year tracking video games as a separate toy category.

Nintendo projects sales of Nintendo entertainment systems at 8 million in 1989, up from 7 million in 1988 and 4 million in 1987. By year-end, 19 million, or 21.3 percent, of American homes will have a Nintendo system.

In Nintendo games, it expects to sell 50 million in 1989, compared to 34 million last year.

Nintendo products are driving the sales of other toys, even though Nintendo officially places itself as a producer of consumer electronics products, rather than as a toymaker. Nintendo introduced its World of Nintendo concept at January's Consumer Electronics Show in Las Vegas, Nev., rather than the February Toy Fair. In fact, it declined to display anything at toy show in New York.

Among conventional toys, Fisher-Price, Mattel and Playskool remained the top three brands for the fifth year in a row, in the *DSN* Top Brands Survey for 1988. Hasbro's Milton Bradley line came in fourth and Hasbro alone came in fifth.

Toy sales through mass market channels will hit $8.9 billion in 1989. Of that total, full-line discounters will generate $4.5 billion, catalog showrooms $0.7 billion, and specialty discounters $3.7 billion.

In terms of productivity at full-liners, toys will turn 3.1 times annually, generating an average gross margin of 26.8 percent.

Toys $8.9 Billion	
Full-Line Discounters	$4.5B
Catalogers	$0.7B
Specialty Discounters	$3.7B
Full-Line Discount Store Productivity	
Sales	$4.5B
Sales Per Store	$562,500
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	$225.00
Turns	3.1
Initial Markup	36.7%
Gross Margin	26.8%

Source: DSN research

Full-Liners Face Stiff H&BA Competition

Health & beauty aids remains an extremely competitive category for many of the nation's discounters. Not only did discounters face competition among themselves and traditional drug store chains, but also from the growing number of deep discount drug stores that continue to spread across the country.

Like discount chains, deep discounters usually narrow their assortment to the best-selling sizes and brands.

What sales growth there has been in the H&BA category, many discounters attribute to strong advertising, product name recognition and overall product performance. Sharp pricing and wide variety are also important.

The outlook for this year is again a competitive one for most discounters as customers continue to shop carefully for their favorite brands.

With some newness in the mouthwash area, consumer enthusiasm has continued this year. (DSN photo)

And consumers have shown themselves to be particularly brand-conscious when purchasing H&BA products. Studies show that H&BA brand loyalty rates as one of the highest among the numerous departments at a typical discount store.

According to *DSN*'s Top Brands study, Crest and Colgate are the most popular brand names in H&BA among both consumers and store managers. Other important brands include Lever Bros., Listerine, Johnson & Johnson, Scope, Clairol, Kleenex, Revlon, Mennen, Right Guard and Aqua Net.

Yet despite the brand demand, consumers are somewhat fickle. Nearly 50 percent of the discount store shoppers are willing to switch brands if their desired product is not available. This flexibility, however, does not transcend to private label H&BA goods, which typically receive low marks from consumers.

Few new brands and products, however, hit the shelves in 1988. Instead manufacturers relied more on new packaging, improved formulas and line extensions.

Some newness did come in the mouthwash area, where plaque control rinses became a hot seller. Leading in 1988 was Plax, Viadent and Listerine, and much of the consumer enthusiasm for these products appears to be continuing this year.

Eye care products also supplied some H&BA innovation during the year, with Bausch & Lomb, Allergan, AO Sept and Lens Plus running as top sellers. Generating sales of close to $1 billion, the eye care business is lead primarily by chemicals, which saw a big sales increase in 1988.

Salon and professional hair care products also pumped some excitement into H&BA during the past year. Although the leading hair care sellers continued to be the traditional mainstays, Redmon's Aussie, Helene Curtis' Salon Selectives and Gillete's "salon" Silkience had a strong showing.

Other new hair care introductions include Chesebrough-Pond's Rave Professional Formula shampoos and conditioners, Alberto-Culver's Bold Hold shampoos and conditioners, VO5's Moisturizing shampoos and conditioners, Procter & Gamble's new Dandruff Control Pert Plus, and the expected relaunch of Revlon's Flex shampoos and conditioners.

Thanks to weight loss programs by celebrities—such as Oprah Winfrey—rather than new products, discounters realized some sales gains in diet products. Slim Fast moved quickly to the forefront of the category's volume, and was followed by sugar substitutes Equal and Sweet'N Low, and then Dexatrim and Acutrim.

Chains also looked to instill some excitement into the H&BA department themselves with the expansion or introduction of more ethnic products. K mart, for example, is currently testing Hispanic products at over a dozen locations.

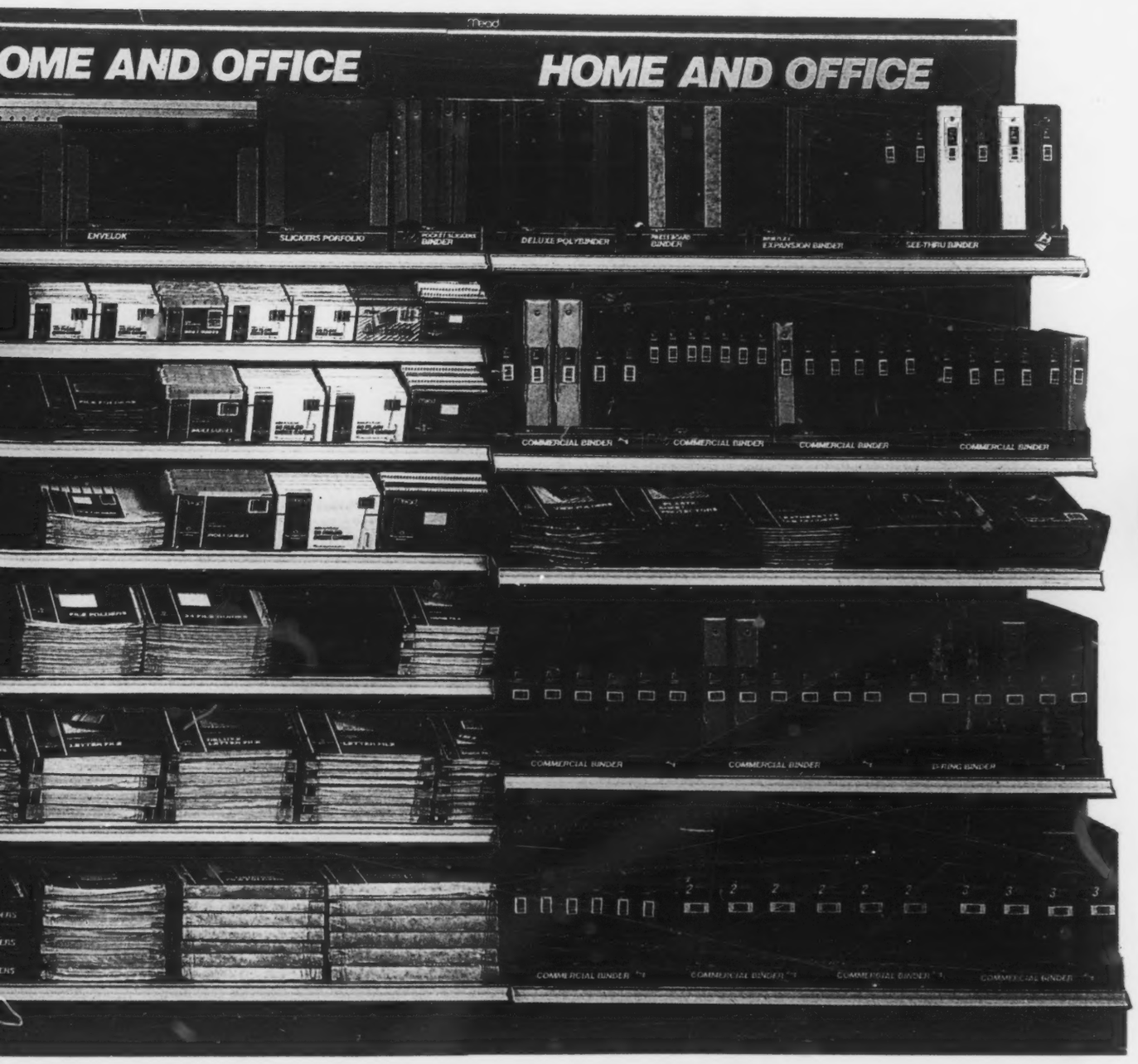
Using some 60-inch sections, the chain's test stores are carrying import products and items and fragrances geared toward the groups' consumer preference. K mart estimates that some 300 of its locations, primarily in the sunbelt, hold the potential for Hispanic H&BA selections.

K mart's overall 20-foot ethnic selection expects to see a 6 percent sales increase this year.

H&BA sales through full-line discounters will hit $6.2 billion in 1989. According to *DSN* research, the H&BA category will achieve an average of 5.0 turns annually, with a gross margin of 19.5 percent.

Health & Beauty Aids $6.2 Billion	
Full-Line Discounters	$6.2B
Catalogers	NA
Specialty Discounters	NA
Full-Line Discount Store Productivity	
Sales	$6.2B
Sales Per Store	$775,000
Dept. Size	3,200 Sq. Ft.
Sales Per Sq. Ft.	$242.19
Turns	5.0
Initial Markup	25.5%
Gross Margin	19.5%

NA—not available *Source: DSN research*



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More Auto Parts, Accessories–Less Service

Most Discount Chains Continue Trend Of Closing/Limiting Auto Service Shops

Wal-Mart continues to run counter to the discount industry trend of closing service shops, while K mart, despite cutting back on service, is testing an enlarged auto parts and accessories department. Truck accessories are gaining shelf space, not only at the specialty auto aftermarket chains, but at discount department stores as well. However, the stand-alone home and auto concept appears to be at a dead end.

And, the latest wrinkle in automotives merchandising is the proposed application of the warehouse concept in a new chain called Auto Giant.

Robert A. McNulty, who founded the HomeClub warehouse club in home improvement, the All-American SportsClub, which was involuntarily liquidated this spring by a bankruptcy trustee, and the HQ Office Supplies Warehouse chain, now is attempting to raise capital for a chain of 50,000-square-foot automotive warehouses.

Because of Securities and Exchange Commission regulations prior to floating an initial public offering of stock, Auto Giant is saying little about its proposed venture, beyond confirming that the first of several 50,000-square-foot warehouses will open in San Bernardino, Calif.

Auto Giant units' merchandising will focus on branded goods, including several lines of national brand tires. Bucking a national trend among discounters, Auto Giant will offer complete automotive service.

K mart continues a process that has been underway for several years of closing unprofitable auto service departments. Only an estimated 1,200 stores out of more than 2,200 offer auto service, down from a previous high of more than 1,600.

Automotives: $10.2 Billion	
Full-Line Discounters	$5.8B
Catalogers	$0.1B
Specialty Discounters	$4.3B
Full-Line Discount Store Productivity	
Sales	$5.8B
Sales Per Store	$725,000
Dept. Size	2,300 Sq. Ft.
Sales Per Sq. Ft.	$315.22
Turns	3.2
Initial Markup	34.0%
Gross Margin	25.5%

Source: DSN research

To the contrary, Wal-Mart continues to add auto service in selected new stores and now operates about 275 auto service departments in its 1,275 full-line stores.

Ames, upon acquiring the 388 Zayre Stores, closed the limited service departments still functioning in about 100 stores. In 1987, Zayre had ceased full automotive service, but then reopened discount tire shops called Tire Slashers in 108 stores.

Ames last December closed the Tire Slashers shops and is using the old service bays for storage.

Although K mart is cutting back on service offerings, it is launching a 100-store test of enlarged auto parts and accessories departments. Pickup truck accessories—the fastest growing segment of the aftermarket—will occupy much of the enlarged space, industry sources said.

Truck accessories also will occupy much of the new space in the Auto Palace prototype of ADAP Auto Parts. The Auto Palace stores average 10,000 square feet, compared to a chainwide average of 5,800 square feet. ADAP is increasing sku's to 13,500 from 10,500. Auto Palace offers 120 linear feet of light truck parts and 100 feet of performance accessories.

Sears, Roebuck & Co. continues to expand its stand-alone auto center merchandising concept. It now has opened three of the centers in the Chicago market, and may open up to five more there.

Wal-Mart is the notable exception to the current trend among discounters of closing service shops and concentrating on parts and accessories. The chain now runs about 275 auto service centers.

Illustrating the influence of its Western Auto acquisition last spring, the stand-alone auto centers offer a variety of national tire brands, including Michelin, Pirelli, Bridgestone and Firestone.

Sears also is taking a branded tire merchandising tack in automotives tests in Richmond, Va., and Milwaukee, Wis.

In four Richmond stores, Sears closed its conventional automotive centers and substituted what it calls Tire America by Sears. Tire America was a tire specialty chain owned by Western Auto. The centers offer only tires, batteries, shocks and services related to tires and electrical systems.

It has moved a limited selection of auto waxes, chemicals, oils and accessories into the store's hardware departments.

In two Milwaukee test stores, Sears also is focusing on a variety of branded tires, batteries and shocks, and services related to tires and batteries. General services, such as tune-ups and lube jobs, are no more.

Western Auto paved the way in branded tire merchandising following its acquisitions of the Tire America and NTW tire specialty chains. In a cross-merchandising move, Western Auto stores now carry Sears DieHard batteries and a few stores are testing Sears Craftsman private label hand tools.

Pep Boys—Manny, Moe & Jack also edged away from its reliance on private label tires by launching a limited move into branded tires, including Michelin and Goodyear. It also discontinued bicycles, a step that reflects a continued decline in the home and auto merchandising concept.

TSS, Brooklyn, N.Y., formerly TSS-Seedman's, for instance, closed two of its four home and auto stores and plans no more.

Western Auto closed about 200 more of its home and auto associate stores in 1988 on top of 200 in 1987. Only about 1,200 Western Auto stores now offer home and auto, down from 2,600 a few years ago and close to a stated goal of 1,000.

And the OTASCO home and auto chain, based in Tulsa, Okla., was liquidated earlier this year by a bankruptcy creditor in possession of the chain. OTASCO was down to 190 stores last year when the chain declared bankruptcy. It once ran more than 300 home and auto stores.

Auto parts and accessories sales through mass market channels will hit $10.2 billion in 1989, with full-line discounters ringing up $5.8 billion in their auto departments. Specialty chains will collect $4.3 billion in sales this year.

The automotive category at full-line discount stores is projected to attain 3.2 turns annually with an average gross margin of 25.5 percent.

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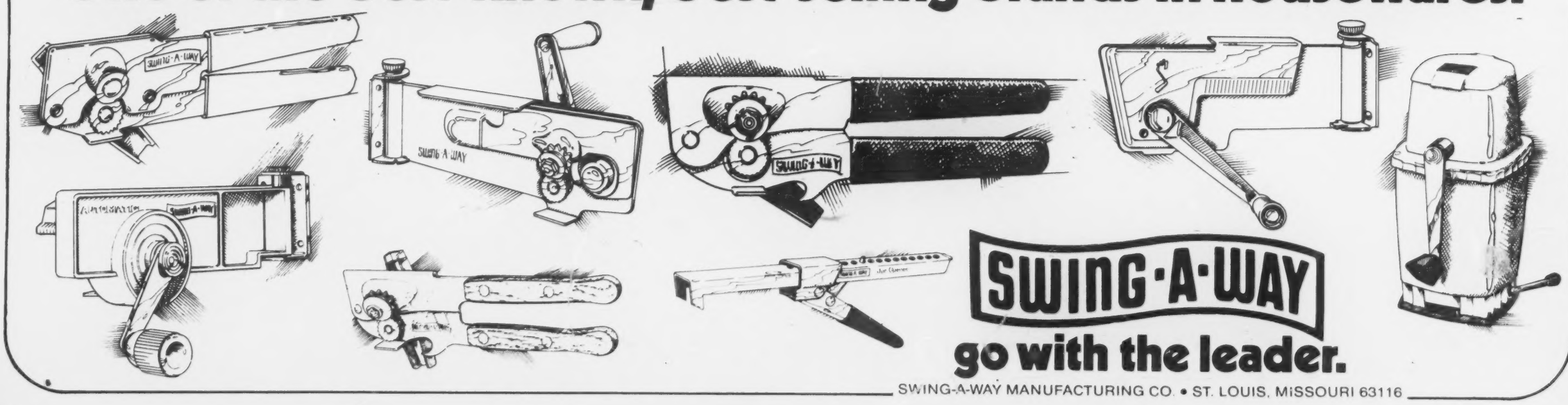

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Warehouses Bring Sharper Prices to Sporting Goods

Sporting Goods: $6.3 Billion	
Full-Line Discounters	$4.0B
Catalogers	$0.6B
Specialty Discounters	$1.7B
Full-Line Discount Store Productivity	
Sales	$4.0B
Sales Per Store	$500,000
Dept. Size	2,500 Sq. Ft.
Sales Per Sq. Ft.	$200.00
Turns	2.0
Initial Markup	37.1%
Gross Margin	28.4%

Source: DSN research

The concept of everyday low pricing in sporting goods merchandising has gained a firmer foothold now that K mart has launched its sporting goods warehouse club chain by opening two 50,000-square-foot units in the Detroit market.

Sports Giant offers everyday prices that are 10 percent to 15 percent below prevailing prices.

That contrasts sharply with the full markup pricing policy of, say, Champs Sports, owned by F.W. Woolworth, or the highly promotional pricing of Herman's.

As do other sporting goods warehouses, Sports Giant carries complete lines of athletic apparel, footwear and equipment. In golf, Sports Giant makes a particularly strong statement, offering as large a selection of golf clubs, bags and apparel as most, if not all, golfing specialty shops.

It also offers nearly 13,000 pairs of athletic shoes, including Reebok, which discounters traditionally have had trouble obtaining. Despite attempts to negotiate with Nike, which has displaced Reebok as the hottest athletic shoe line, Sports Giant still carries no Nike footwear.

Another advocate of the supermarket sporting goods merchandising policy is Sports Town, an Atlanta-based warehouse chain. It is set to open a third unit in Houston, today, July 17 and a fourth Aug. 17. That will push the count for the 50,000-square-foot warehouse stores to nine: four in Atlanta, four in Houston and one in Dallas. Sports Town also makes a strong pitch for team sales with good results.

Still another chain that considers "big" as "better" is Casey's, which Thrifty Corp. acquired last year to operate under its Gart Bros. division. Gart will open a 75,000-square-foot Casey's Sports Castle in Kansas City, Mo., in August and another in St. Louis this fall. They will be patterned on similar sized Gart's Sports Castles in Denver and Salt Lake City.

Other examples of the trend toward megastores: Sports Authority, Fort Lauderdale, Fla., plans to build two of its warehouse-style stores next year in Houston; Sportsmart, Niles, Ill., will open three more of its 40,000-square-foot stores for a year-end total of 24, and Oshman's opened four units of its new megastore chain, SuperSports USA.

In a novel merchandising tack, Target has commissioned an exclusive signature line of winter sports apparel and equipment from Will Steger, an Antarctic explorer. In time for back-to-school, Target will offer some 100 items in the Steger line, all at upscale prices. To promote the line, Target is sponsoring Steger's 1990 expedition across the Antarctic.

In exercise, treadmills have become the "rowing machine" that is driving the category in 1989. Recumbent exercise bikes, stair climbers and Nordic skiers, which simulate cross-country skiing motions, are new product lines that are keeping exercise alive, despite indications that it was dying in 1986 and 1987.

When merchandising for the masses, look to goods in the swimming, exercise walking, bicycle walking and fishing categories.

Sales trends in the first quarter of 1989 showed that walking shoes and athletic footwear are enjoying healthy gains. Widebody tennis rackets continued their popularity. With competition, prices may come down. For the mass market, retailers such as Spalding and Wilson have introduced cheaper versions of widebody rackets intended to retail for about $30.

Because of poor snowfall in the Northeast, ski equipment sales slipped somewhat, but ski apparel bucked the trend.

Sporting goods sales through mass market outlets will hit $6.3 billion in 1989, with discount department stores garnering $4.0 billion in sales. At the full-liners, the category will turn 2 times annually and achieve an average gross margin of 28.4 percent.

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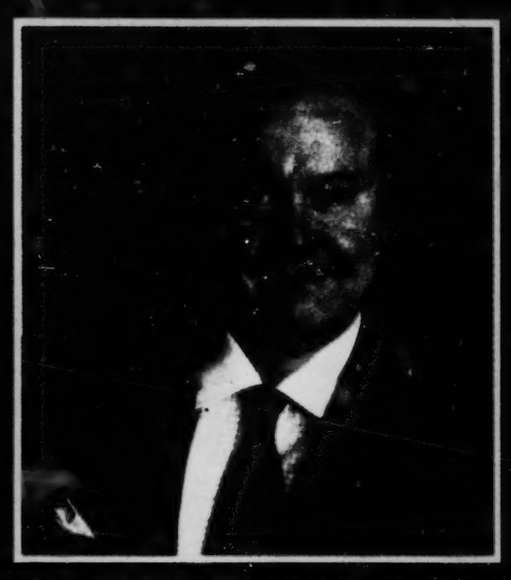

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DISCOUNT INDUSTRY ANNUAL REPORT: PART II

Hypermarkets Rival Clubs in Store Productivity

Membership warehouse clubs, hypermarkets and consumer electronics chains were the top performing retailers last year in terms of sales productivity, according to calculations based on *DSN*'s Top 150 list of leading discounters.

The 10 leading membership warehouse chains are represented among the top 30 discounters ranked on a sales per store basis. Price Club led the group with average sales per store of $98.9 million.

Three hypermarkets rank among the top 10 discounters in sales per store. Hypermart USA racked up an average of $91.7 million per store. Since two of its three stores were not open for the full year, that figure should be even higher next year.

Carrefour, despite struggling for acceptance in the competitive Philadelphia market, achieved $60 million in sales from its sole unit. And Biggs, with three units, averaged $50 million per store last year, as hypermarkets make an impact on U.S. retailing.

Tops Appliances, with two CE and appliance stores in New Jersey, had the highest sales per store average last year, but that figure is a bit deceiving as Tops does a large portion of its business with contractors and builders.

The two leading full-line discounters in per store sales were Meijer ($57.7 million) and Fedco ($57.1 million).

The nation's top 150 discount retailers, which admittedly includes an extremely wide variety of formats, averaged $5.9 million in sales per store.

On a sales per square foot basis, the CE chains were stellar performers. Among the leaders were Tops ($3,200 per square foot), Trader Horn (over $1,000 per square foot), and The Wiz (over $750 per square foot).

Despite their huge size, two warehouse clubs put their large selling floors to very good use. Price Club averaged $988.54 per square foot and Price Savers rang up an average of $461.54 per square foot.

Among full-liners, Meijer, Smitty's and Fedco were the standouts, with average sales per square foot figures ranging over $315.

Sales Productivity of Top 150 Discount Chains

1988 Rank	Chain	Code	Sales Per Store (In Millions)	Sales Per Square Foot	Sales Per Employee (In Thousands)	1988 Rank	Chain	Code	Sales Per Store (In Millions)	Sales Per Square Foot	Sales Per Employee (In Thousands)
1	**K mart**	DDS	$ 10.7	$ 184.39	$ 65.5	76	**The Federated Group**	CE	$ 4.1	$ 138.25	NA
2	**Wal-Mart**	DDS	13.4	167.00	75.4	77	**TSS**	DDS	17.9	119.05	$ 87.0
3	**Target**	DDS	18.6	185.66	NA	78	**Warehouse Club**	CLUB	20.8	207.50	442.3
4	**Montgomery Ward**	DDS	14.8	184.57	68.5	79	**Trak Auto**	AUTO	0.9	161.25	79.8
5	**Price Club**	CLUB	98.9	988.54	368.5	80	**Newmark & Lewis**	CE	4.6	508.55	286.1
6	**Sam's**	CLUB	36.5	364.67	284.9	81	**American TV**	CE	33.6	419.64	130.6
7	**Toys "R" Us**	TOY	8.9	193.27	121.5	82	**The Wiz**	CE	9.0	753.21	NA
8	**Ames**	DDS	4.1	63.88	55.1	83	**Fretter**	CE	4.3	356.48	NA
9	**Service Merchandise**	CAT	9.8	177.40	156.4	84	**Rich's**	DDS	11.0	182.54	76.7
10	**Meijer**	DDS	57.7	320.51	88.2	85	**L. Luria & Son**	CAT	4.6	176.76	70.1
11	**Zayre**	DDS	NA	NA	NA	86	**Dress Barn**	APP	0.5	134.92	68.0
12	**Bradlees**	DDS	16.1	223.39	123.9	87	**Hartz**	DDS	6.2	90.91	72.9
13	**Best Products**	CAT	10.8	165.58	139.2	88	**Audio-Video Affiliates**	CE	1.6	156.80	NA
14	**Fred Meyer**	DDS	18.5	176.36	NA	89	**Bill's Dollar Stores**	DOLLAR	0.5	78.28	73.5
15	**Costco**	CLUB	39.8	345.91	276.3	90	**PACCAR**	AUTO	1.4	62.55	NA
16	**Marshalls**	APP	5.7	202.61	NA	91	**Yellow Front**	DDS	1.2	99.46	74.0
17	**Circuit City**	CE	13.8	430.25	164.2	92	**Greenman Bros.**	TOY	0.5	180.98	55.2
18	**Hills**	DDS	10.0	125.07	66.8	93	**Click**	DDS	19.4	169.08	NA
19	**Caldor**	DDS	13.2	161.30	NA	94	**Gee Bee**	DDS	7.3	101.27	50.0
20	**T.J. Maxx**	APP	4.8	241.88	NA	95	**Clothestime**	APP	0.5	127.61	52.6
21	**Pay Less NW**	DRUG	5.4	173.88	NA	96	**Quality Stores**	DDS	3.3	162.75	97.6
22	**Rose's**	DDS	5.8	137.05	65.4	97	**K's Merchandise**	CAT	15.0	200.00	NA
23	**Venture**	DDS	17.6	212.87	NA	98	**Sportmart**	SPORT	7.9	196.43	82.5
24	**ShopKo**	DDS	14.7	210.18	71.1	99	**Prange Way**	DDS	6.4	98.46	40.0
25	**PACE**	CLUB	32.6	325.90	188.9	100	**Swallen's**	DDS	17.6	130.04	117.0
26	**Western Auto**	AUTO	2.6	372.98	100.6	101	**Wall to Wall Sound**	CE	1.4	177.57	NA
27	**Highland Superstores**	CE	10.8	451.88	NA	102	**Bigg's**	HYPER	50.0	250.00	100.0
28	**Silo**	CE	3.9	388.10	232.9	103	**The Good Guys**	CE	8.3	551.85	174.9
29	**Child World**	TOY	5.0	137.53	141.9	104	**Grandpa Pidgeon's**	DDS	17.5	243.06	NA
30	**BJ's Wholesale Club**	CLUB	36.4	363.64	NA	105	**Sky City**	DDS	2.1	53.03	NA
31	**Jamesway**	DDS	6.5	112.74	79.9	106	**Stuarts**	DDS	6.7	111.11	77.8
32	**Kay-Bee**	TOY	1.1	357.63	104.0	107	**Trader Horn**	CE	8.8	1,093.75	NA
33	**Lechmere**	DDS	28.5	379.75	NA	108	**Chaffin**	DDS	4.2	108.17	96.4
34	**Family Dollar**	DOLLAR	0.5	66.27	NA	109	**Office Depot**	OFFICE	5.1	253.85	69.5
35	**Herman's**	SPORT	2.7	269.23	77.8	110	**David Weis**	CAT	7.6	169.93	NA
36	**Fedco**	DDS	57.1	317.13	105.4	111	**Luskins**	CE	2.7	303.70	148.4
37	**Northern Automotive**	AUTO	0.8	135.62	71.0	112	**Staples**	OFFICE	5.4	338.07	91.5
38	**Pep Boys**	AUTO	2.7	148.33	73.7	113	**G.I. Joe's**	DDS	10.5	180.25	NA
39	**Smitty's**	DDS	32.0	320.00	98.5	114	**Stein Mart**	DDS	4.1	102.68	NA
40	**Burlington Coat**	APP	4.8	95.37	58.1	115	**Arvey Paper**	OFFICE	2.8	138.89	NA
41	**Thrifty Corp.**	SPORT	2.7	NA	NA	116	**Brick Church**	CE	2.5	166.67	NA
42	**Ross Stores**	APP	4.5	181.14	127.8	117	**Buyer's Club**	CLUB	25.0	250.00	NA
43	**Consolidated Stores**	CLOSE	2.0	72.70	61.2	118	**Fred Schmid**	CE	5.3	438.60	NA
44	**Price Savers**	CLUB	46.2	461.54	NA	119	**Super City**	OFFICE	6.3	416.67	NA
45	**Pamida**	DDS	3.4	137.70	87.4	120	**The Andersons**	DDS	16.7	154.32	NA
46	**Dollar General**	DOLLAR	0.4	76.27	80.9	121	**NBO Stores**	APP	16.7	NA	NA
47	**Alexanders**	DDS	40.4	161.54	55.3	122	**Champs Sports**	SPORT	0.7	135.38	NA
48	**Best Buy**	CE	12.4	494.63	144.9	123	**Laneco**	DDS	6.5	79.25	NA
49	**AutoZone**	AUTO	1.0	184.77	62.9	124	**Academy**	SPORT	3.4	170.83	91.1
50	**Value City**	DDS	9.4	117.78	70.7	125	**The Fair Company**	DDS	10.3	128.13	82.0
51	**Fishers Big Wheel**	DDS	4.6	101.45	80.8	126	**Tuesday Morning**	CLOSE	0.8	99.01	48.2
52	**Lionel Leisure**	TOY	4.9	139.12	40.9	127	**Building #19**	CLOSE	8.9	111.11	80.0
53	**Pic 'N' Save**	CLOSE	2.5	106.01	83.8	128	**Dahlkemper's**	CAT	10.0	192.31	66.7
54	**The Wholesale Club**	CLUB	22.3	223.33	365.5	129	**Mars**	DDS	5.7	114.29	NA
55	**Hit or Miss**	APP	0.7	203.12	NA	130	**W. Bell**	CAT	4.4	219.44	79.0
56	**Kids "R" Us**	APP	3.2	158.48	NA	131	**The Present Co.**	CAT	3.2	213.89	NA
57	**Loehmann's**	APP	4.6	305.02	NA	132	**Sterling Jewelry**	CAT	15.0	250.00	NA
58	**Clover**	DDS	15.2	179.14	67.0	133	**Van Leunen's**	DDS	10.7	142.86	NA
59	**Tops Appliances**	CE	160.0	3,200.00	NA	134	**Evans**	CAT	8.0	NA	180.0
60	**ALCO**	DDS	2.1	60.38	70.4	135	**Modell's**	SPORT	2.5	140.87	78.9
61	**Chief Auto Parts**	AUTO	0.7	217.12	65.0	136	**Club Wholesale**	CLUB	13.0	130.00	130.0
62	**Oshman's**	SPORT	1.6	158.03	76.3	137	**K & K Toys**	TOY	0.5	165.52	81.3
63	**Heck's**	DDS	4.0	100.33	100.3	138	**Odd Job Trading**	CLOSE	4.1	NA	NA
64	**Bi-Mart**	DDS	7.9	263.16	166.7	139	**One Price Clothing**	APP	0.4	179.52	40.0
65	**Consumers Distributing**	CAT	3.4	309.92	120.0	140	**Carrefour**	HYPER	60.0	352.94	200.0
66	**Filene's Basement**	APP	13.6	545.45	150.0	141	**Maxway**	DDS	1.2	62.11	73.8
67	**Makro**	CLUB	50.0	303.03	NA	142	**Apex**	DDS	18.3	141.03	NA
68	**Syms**	APP	12.9	273.69	113.2	143	**Bargain Town**	DOLLAR	0.9	65.48	NA
69	**Hypermart USA**	HYPER	91.7	416.67	183.3	144	**Witmark**	CAT	6.6	189.29	88.3
70	**S.E. Nichols**	DDS	6.7	76.82	72.1	145	**S&K Famous Brands**	APP	0.7	NA	NA
71	**Ann & Hope**	DDS	44.2	245.37	NA	146	**Office Club**	OFFICE	3.4	212.50	85.0
72	**Nationwise**	AUTO	0.9	153.22	87.3	147	**Kingsway**	DDS	16.7	166.67	NA
73	**Brendles**	CAT	6.5	163.13	108.8	148	**Goldblatt**	DDS	4.8	96.00	71.1
74	**Whitlock**	AUTO	1.0	114.64	NA	149	**Jewelcor**	CAT	5.2	149.21	NA
75	**Crazy Eddie**	CE	5.9	588.37	NA	150	**E.H. Tepe**	CAT	4.6	102.22	NA

Average Sales Per Store: $5.9 Million **Average Sales Per Square Foot: $183.97**

Chain Codes: ● **DDS:** Discount Department Store ● **APP:** Off-Price Apparel Chain ● **CE:** Consumer Electronics Chain ● **CAT:** Catalog Showroom ● **AUTO:** Auto Aftermarket Specialty Chain ● **CLUB:** Membership Warehouse Club ● **SPORT:** Sporting Goods Specialty Chain ● **TOY:** Toy Specialty Chain ● **DOLLAR:** Dollar Variety Chain ● **DRUG:** Drug Chain (with high percentage of general merchandise ● **CLOSE:** Closeout Chain ● **HYPER:** Hypermarket ● **OFFICE:** Office Supply Megastore

NA—not available

Source: DSN *research*

DISCOUNT INDUSTRY ANNUAL REPORT: PART II

Discount Stores by Region and State

Region/State	Full-Line Discounters	Catalog Showrooms	Membership Warehouse Clubs	Total	Leading Chains By Region, State			
New England	471	65	12	548	Ames/Zayre	155	Bradlees	75
Connecticut	100	10	4	114	Caldor	31	Bradlees	26
Maine	56	6	0	62	Ames/Zayre	33	Kmart	8
Massachusetts	203	31	6	240	Ames/Zayre	51	Bradlees	37
New Hampshire	66	12	1	79	Ames/Zayre	27	Kmart	9
Rhode Island	27	5	1	33	Ames/Zayre	10	Kmart	5
Vermont	19	1	0	20	Ames/Zayre	14	Kmart	3
South Atlantic	2,575	256	55	2,886	Family Dollar	714	Kmart	480
Delaware	75	4	2	81	Kmart	41	Ames/Zayre	9
Florida	600	89	22	711	Dollar General	168	Kmart	150
Georgia	422	18	9	449	Family Dollar	147	Kmart	82
Maryland	140	34	8	182	Ames/Zayre	45	Kmart	28
North Carolina	528	45	5	578	Family Dollar	214	Rose's	105
South Carolina	258	18	3	279	Family Dollar	102	Kmart	42
Virginia	350	39	5	394	Family Dollar	98	Dollar General	67
Washington, D.C.	1	3	0	4	W. Bell	2	—	—
West Virginia	201	6	1	208	Dollar General	51	Family Dollar	51
East North Central	1,754	127	40	1,921	Kmart	482	Dollar General	219
Illinois	381	38	7	426	Kmart	105	Dollar General	81
Indiana	341	23	7	371	Kmart	78	Dollar General	76
Michigan	318	29	7	354	Kmart	123	Meijer	43
Ohio	554	37	16	607	Kmart	125	Family Dollar	69
Wisconsin	160	0	3	163	Kmart	51	ShopKo	35
East South Central	1,261	55	19	1,335	Dollar General	336	Family Dollar	308
Alabama	283	14	5	302	Family Dollar	89	Wal-Mart	67
Kentucky	360	7	6	373	Dollar General	124	Family Dollar	70
Mississippi	208	8	1	217	Dollar General	53	Wal-Mart	53
Tennessee	410	26	7	443	Dollar General	124	Family Dollar	98
Middle Atlantic	874	177	15	1,066	Kmart	211	Ames/Zayre	177
New Jersey	151	36	3	190	Kmart	43	Bradlees	31
New York	281	75	6	362	Ames/Zayre	98	Kmart	60
Pennsylvania	442	66	6	514	Kmart	108	Ames/Zayre	71
West South Central	1,199	78	50	1,327	Wal-Mart	452	Kmart	226
Arkansas	199	4	3	206	Wal-Mart	76	Dollar General	48
Louisiana	255	14	9	278	Wal-Mart	73	Family Dollar	69
Oklahoma	188	8	5	201	Wal-Mart	80	Dollar General	46
Texas	557	52	33	642	Wal-Mart	223	Kmart	151
West North Central	829	32	14	875	Kmart	187	Wal-Mart	159
Iowa	145	1	1	147	Pamida	45	Kmart	36
Kansas	115	7	2	124	ALCO	28	Kmart	26
Minnesota	131	6	5	142	Kmart	42	Pamida	39
Missouri	286	12	5	303	Wal-Mart	105	Dollar General	85
Nebraska	83	1	1	85	Kmart	18	ALCO	16
North Dakota	29	3	0	32	Kmart	12	Pamida	6
South Dakota	40	2	0	42	Pamida	12	Kmart	11
Mountain	484	48	23	555	Kmart	145	Yellow Front	115
Arizona	133	10	7	150	Yellow Front	63	Kmart	30
Colorado	102	15	5	122	Kmart	34	Wal-Mart	24
Idaho	50	2	2	54	Pay Less NW	16	Kmart	11
Montana	31	3	1	35	Kmart	12	Yellow Front	8
Nevada	25	2	3	30	Kmart	10	Pay Less	6
New Mexico	58	10	1	69	Kmart	21	Wal-Mart	16
Utah	50	5	4	59	Fred Meyer	17	Kmart	17
Wyoming	35	1	0	36	Pamida	15	Kmart	10
Pacific	701	83	78	862	Pay Less NW	240	Kmart	218
Alaska	4	2	2	8	Fred Meyer	4	Capital Jewelers	2
California	407	62	58	527	Kmart	165	Pay Less NW	138
Hawaii	7	0	1	8	Gem of Hawaii	5	Holiday Mart	2
Oregon	142	5	6	153	Pay Less NW	51	Fred Meyer	43
Washington	141	14	11	166	Pay Less NW	51	Kmart	31
Total	**10,148**	**921**	**306**	**11,375**	Kmart	2,145	Family Dollar	1,509

Excludes 324 Montgomery Ward stores.
Full-line discounters includes dollar discount chains.
Total numbers may vary slightly depending upon frequent openings and closings during the year.

Source: DSN research

ANNUAL REPORT: PART II/CHAIN PROFILES

Specialty Overshadows Full-Liners at K mart

TROY, Mich. — Despite intensive marketing efforts aimed at attracting the baby boom generation to its discount stores, K mart's future growth is likely to come predominantly from its specialty concepts.

Last year, the company purchased a 51 percent stake in Makro, the Cincinnati-based membership club, and announced plans to expand the chain to about 20 stores by the end of 1990. It opened Office Square, an office supply megastore that, though in the experimental stage, is poised to exploit that rapidly growing retail sector.

Of the corporation's $27.3 billion in sales last year, approximately $4.1 billion was generated by its Pay Less Drug Stores, Waldenbooks, Builders Square and Bargain Harold's of Canada specialty divisions. That's nearly an 18 percent increase over the previous year. Subtracting Makro's estimated sales of $300 million (representing a 20 percent increase over 1987), K mart's discount stores sales grew only 3.1 percent last year to $22.9 billion.

This year, the company launched another experimental specialty concept, Sports Giant, a membership sporting goods chain. And, its most ambitious new launch, American Fare, debuted in Atlanta in February. While its ability to generate enough volume to justify its enormous investment is still open to question, American Fare broke new ground in discount store/hypermarket retailing with its innovative fixturing and store design, sharp prices on general merchandise and upscale sportswear merchandise mix.

"Specialty retailing is very important to our future," said chairman and ceo Joseph Antonini, during a press conference following the company's annual shareholders meeting last month. He estimated that specialty retail could contribute up to 20 percent in sales and profits to the corporation.

He further indicated the potential to speed up specialty store rollouts through the opening of K mart "power centers." Plans are on the drawing board for shopping centers containing several of what Antonini describes as K mart's "category cruncher" concepts. Such a center would combine a K mart discount store with any number of specialty stores, such as Builders Square, Office Square, Sports Giant, Waldenbooks, or even a Makro. Secaucus, N.J., has been mentioned by some trade observers as one possible site for such a center.

In comparison to the aggressive growth plans of the specialty chains, K mart's discount department store expansion appears stunted. Given the disappointing sales results recorded so far this year, it's hard to imagine how the chain will execute its plans to open 75 to 100 more full-size stores annually over the next five years, even if 30 or so will replace existing stores.

K mart completed its shift from twice-weekly advertising circulars to one circular per week this year, and has concentrated its marketing programs in event sponsorship and celebrity tie-ins.

During the Winter Olympics, K mart sponsored the United States Hockey Team and was a high-profile advertiser during the Summer Olympics telecast. It signed a three-year sponsorship with the United States Gymnastic Federation to co-sponsor the K mart Gym Kids Club.

Approximately 600,000 children belong to the club, receive a free quarterly newsletter and other membership paraphernalia. "Kids have tremendous purchasing power," noted K mart vp Michael Wellman. "They have approximately $5 billion of their own money to spend and they're influencing parental spending of over $40 billion a year."

Noting that golf has replaced tennis as baby boomers' favorite participation sport, K mart sponsored for the second year the Greater Greensboro Open golf tournament, which was broadcast on network television this April.

The company also rolled out the Martha Stewart program in an effort to establish a recognizable identity for several departments of the store: convenience products, leisure and entertainment, consumables, do-it-yourself, automotives and sporting goods.

Another opportunity for growth is the introduction of food into K mart stores through its new Super K mart general merchandise/grocery store combo units.

K mart

	1988	1987	% Change
Sales (In Millions)	$22,940	$22,241	3.1%
Earnings (In Millions)	1,436.0	1,384.0	3.8
Stores	2,145	2,105	1.9

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

K mart sales/store counts include discount stores only; earnings include Makro and specialty divisions.

Source: DSN research

K mart, Piqua, Ohio: Growth rate of full-size stores is not expected to keep pace with expansion in specialty retailing areas. (DSN photo)

Wal-Mart Express on Track to Become No. 1

BENTONVILLE, Ark. — Wal-Mart holds the distinction of being the only company to own two of the nation's top six discount retail chains: Wal-Mart discount stores with $16.8 billion in 1988 sales, and Sam's Wholesale Club, a $3.8 billion operation.

Wal-Mart

	1988	1987	% Change
Sales (In Millions)	$16,820	$13,248	27.0%
Earnings (In Millions)	1,325.0	1,068.0	24.1
Stores	1,259	1,114	13.0

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Sales/store counts include discount stores and SuperCenters; earnings include Sam's Wholesale Club and other divisions.

Source: DSN research

As if that wasn't enough, Wal-Mart's Hypermart USA made its debut on *DSN's* list of the top 150 discounters at No. 69, with $275 million in sales from its three stores, two of which were open for less than half the year.

Even without a major acquisition, Wal-Mart's current growth rate will take the company past both Sears and K mart as the top retailer in the nation by 1991.

With a 27 percent sales gain over 1987, the discount store division obviously gained market share at the expense of its rivals. Same store sales at the discount stores grew by about 13 percent, more than double the industry average.

Among the chain's top performing departments in 1988 were: shoes, jewelry, pharmacy and automotives. The "Buy America" program continued to play well to the chain's core customer as well as its domestic vendors.

Many retailers began testing the everyday pricing concept last year, but Wal-Mart remains the top executor of this strategy, while continuing to cut costs and enhance customer service.

Discount store count grew from 1,114 in January 1988 to 1,259 in January 1989, specifically targeting Florida, Georgia, North Carolina, Virginia, Indiana and Colorado. The chain is expected to saturate existing markets with more than 150 net new discount stores this year.

Wal-Mart will move more slowly into contiguous markets, such as Chicago and possibly follow the opening of Sam's in Philadelphia with its own entry into the Northeast. However, a major portion of the new openings will be in the states of North Carolina, Virginia, Indiana, Florida, Illinois and Wisconsin.

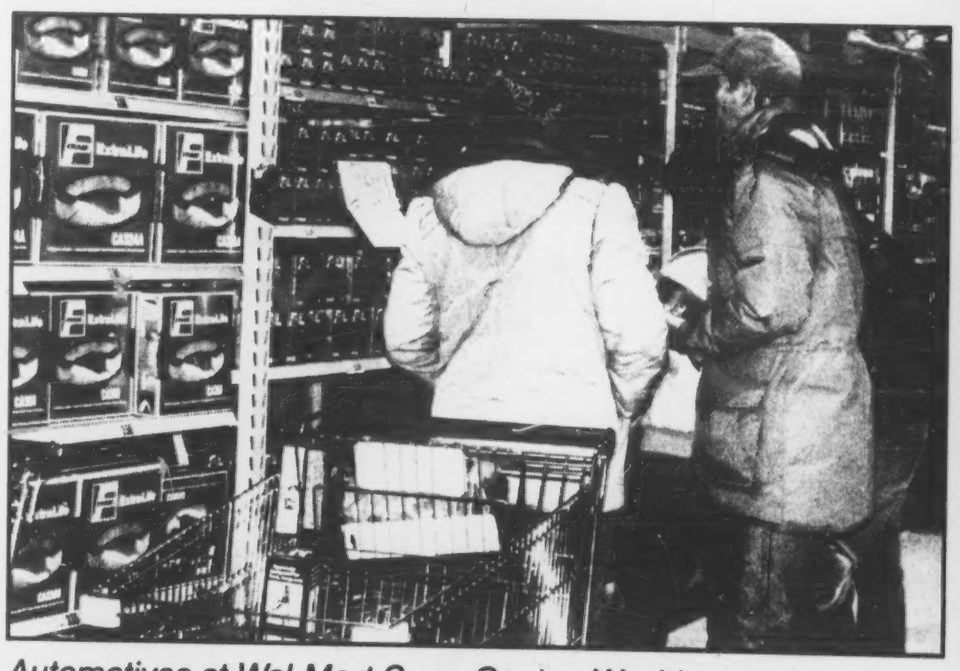
Wal-Mart's new stores are larger than its older units. Besides its 89,000-square-foot metro market prototype, the chain is experimenting with a 110,000-square-foot store that could be used in as many as 20 of the new openings this year.

The installation of point-of-sale scanning was completed last year. Combined with the company's state-of-the-art satellite communications network that provides store-to-headquarters and store-to-store voice and data transmission, Wal-Mart is among the retail industry leaders at equipping its stores with Quick Response inventory replenishment. Improved technology is enabling the chain to speed the institution of shelf pricing, offering further efficiencies over item ticketing.

Last month's opening of its first "vendor store," in which a key vendor in each category is given wide latitude in merchandising its department, illustrates Wal-Mart's leadership role in establishing better relations with its vendors.

In another test with significant long-term implications, Wal-Mart opened its first Wal-Mart SuperCenter last year. The 126,000-square-foot grocery/general merchandise store that opened in a St. Louis suburb produced about twice as much sales as the older Wal-Mart unit it replaced. Other SuperCenters opened in Wagoner, Okla., late last year and in Farmington, Mo., early this year. Three additional openings are expected this year.

Given that SuperCenter is a less risky proposition than Hypermart USA, the potential for significant growth is much greater. If proven viable, SuperCenter could parallel the rapid expansion of Sam's Wholesale Club into a billion dollar chain.



Automotives at Wal-Mart SuperCenter, Washington, Mo.: Sales at this 120,000-square-foot grocery/general merchandise store doubled the old Wal-Mart that it replaced. (DSN photo)

ANNUAL REPORT: PART II/CHAIN PROFILES

Target Steps Up Expansion; Improves Merchandise Flow

MINNEAPOLIS, Minn. — Target Stores moved aggressively forward in 1988 with the opening of 25 new locations and the acquisition of additional sites for even greater growth in 1989.

The nation's third largest discounter also reached record sales in 1988 as revenues reached $6.331 billion compared to $5.306 billion in the previous year. Operating profits at the chain based here rose 6 percent to $341 million.

Target marked 1988 with its initial entry into the Pacific Northwest. Store openings last July launched the chain's plans for 35 stores in Washington and Oregon by 1993.

In 1988, Target opened stores in New Mexico, Michigan and California, giving it 341 locations by the end of the year.

And, expansion may accelerate this year if Target, as speculated, succeeds in acquiring any or all of the Venture and Caldor stores May has apparently put on the block.

This spring, Target stretched its market reach Eastward with the opening of 30 former Gold Circle stores. Acquired in an estimated $130 million deal last fall, the stores pushed Target into Georgia, Florida, North Carolina and South Carolina for the first time. The chain also picked up markets in Tennessee and Kentucky.

Target opened the former Gold Circle stores under the chain's experimental everyday low pricing strategy.

Last year, Target joined a number of discounters to test the EDLP policy. Although Target officials have admitted to being "optimistic" about the approach, current plans do not call for a chainwide rollout.

Begun in the fall at the chain's stores in Knoxville, Tenn., and Albuquerque, N.M., the approach continues Target's shift away from print ads toward more institutional-type TV and radio ads.

To promote the opening of the former Gold Circle stores, Target used the country music singers The Judds in a month-long campaign. Within the past year, the discounter has looked to celebrities like The Judds, The Jets and Aretha Franklin to enhance its promotional approach.

At the same time Target celebrated the opening of its Southeast stores, the upscale discounter unveiled its prototype store in Eagan, Minn.

The new store design includes hypermarket-style features that help produce an airy and open look for Target. Created to improve both flow and merchandising, the prototype offers wider aisles, a new color scheme, lighted graphics and directional signage, and less distance from aisles to walls.

At Target's new prototype, patio furniture is displayed amid bold graphics, wider aisles and directional signage. (DSN photo)

In addition to these changes during the past 12 months, Target also looked to improve its stock distribution and replenishment. During the year, Target opened new distribution centers in Sacramento, Calif., and Indianapolis, Ind., giving the chain a total of six across the country.

The chain also instituted a "rapid replenishment" system designed to improve stock levels on advertised products. By monitoring the hot selling items in the Sunday circular, stores and distribution centers worked to enhance inventory turns and back room congestion.

Product flow was also improved in 1988 with the help of point-of-sale (POS) scanners coming on line at all Target stores during the year. Going forward, Target is now preparing to further enhance its information systems with the installation of a satellite network. Expected to be running this fall in time for the holiday season, the system will link Target headquarters, distribution centers and stores.

By year-end, Target will have added some 60 sites countrywide, bringing its total to 401. The Southeast openings represent most of the growth, with the rest coming from 13 Michigan locations, eight stores in the Pacific Northwest and several stores located in diverse locations throughout the country.

Target

	1988	1987	% Change
Sales (In Millions)	$6,331	$5,306	19.3%
Earnings (In Millions)	341.0	323.0	5.6
Stores	341	317	7.5

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Source: DSN research

ICI can brighten your profit picture 16 different ways...

Ames Focuses on Digesting Zayre Acquisition

ROCKY HILL, Conn. — Last fall, Ames made what may have been the largest single discount acquisition in history when it purchased Zayre's discount stores for $800 million. The last six months have been spent digesting that huge bite, and to date, the nation's fourth-largest discounter appears to be adapting comfortably.

In the short term, the buyout resulted in a first quarter loss for the company, but Ames president Peter Hollis said in the recent shareholders meeting that he expected profits to return to normal during the third and fourth quarters.

Shortly after the acquisition, sources within the company hinted that the chain's burgeoning specialty division would be allowed to languish so that resources could be spent on cleaning up the Zayre stores. However, expansion of Ames' Crafts & More outlets has actually outpaced plan, and 34 of them are expected to be in place by this fall.

Ames' acquisition will bring the discounter into the big leagues, with K mart, Wal-Mart and Target, and Ames could pass the latter into third place among discounters next year.

Ames has cooled noticeably on its Office Shop Warehouse concept, which now has seven locations. Speculation is that the home office specialty chain will be put on the block, along with the G.C. Murphy variety and dollar store division, in which McCrory, among others, has shown an interest.

The most important development, though, remains the revamping of Zayre. To date, Ames has successfully cleaned up most of the stores, added new apparel, aligned product mixes to more closely match Ames, restructured field and store organizations, and started the conversion of most Zayre stores to Ames stores.

In September, all Zayre stores and 30 Ames stores will be linked to headquarters and each other by satellite, and front-end scanning, price lookup and other automated functions will be added to all stores over the next year.

That will bring Ames into the big leagues, with K mart, Wal-Mart and Target, and Ames could pass the latter into third place among discounters in the coming year.

For the year ended Jan. 28, 1989, Ames' sales totaled $3.36 billion, up from $2.11 billion a year ago. That sales increase reflects the addition of Zayre results for the fourth quarter, but earnings were probably depressed slightly by Zayre results, although the company said that Zayre was marginally profitable in the fourth quarter.

Despite the drag from Zayre, net earnings last year rose to $47.2 million from $34.2 million in the prior year. Operating income soared to $77.4 million from $57.6 million.

Store count doubled to 678 from 342 (full-line discount stores), and variety store count edged up to 172 from 146, mainly due to the opening of 28 Bargain World Stores. Bargain World is a cross between a variety store and a dollar store.

Gross Margin Rises

Same store sales jumped a healthy 5.8 percent, above industry average, and shrink, a problem since the acquisition of G.C. Murphy, shrank to the industry average of approximately 1.3 percent. Gross margin rose by a full percentage point, due, in part, to the better shrinkage figure. Ames also credits better buying and increased import buying.

The Zayre acquisition also changed Ames from a regional, rural retailer to a near-national, more urban operation. According to Hollis, the access to potentially lucrative markets like southern Florida and Chicago was an important consideration in the purchase, along with the favorable real estate position, access to urban markets, and expansion in existing markets with very little investment.

Significantly, Hollis also mentioned potential use of certain Zayre locations as retail laboratories. In one sense, that means combining retail concepts (like Crafts & More) with Ames stores, but it also means experimenting with methods of competing with Wal-Mart. As one Ames executive noted last year in reference to the continued growth of the Bentonville, Ark.-based discounter: "Wal-Mart isn't just going to stop at some state line."

The Florida Zayre stores will afford Ames the opportunity to experience head-to-head competition before Wal-Mart completes its inevitable invasion of the Northeast, Ames' stronghold. Given the effect on other regional retailers of similar Wal-Mart invasions, this could prove to be a very significant part of the Zayre acquisition.

Ames

	1988	1987	% Change
Sales (In Millions)	$3,363	$2,112	59.2%
Earnings (In Millions)	47.2	34.2	38.0
Stores	820	488	8.0

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Ames' 1988 sales include $1.05 billion of Zayre discount stores in the fourth quarter; store counts include Zayre acquisition in 1988.

Source: DSN research

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ANNUAL REPORT: PART II/CHAIN PROFILES

Meijer Finds Right Combination for Midwest

GRAND RAPIDS, Mich. — In its quiet, low-profile fashion, Meijer has grown into a mammoth food and general merchandise chain with 47 food and general merchandise stores and five discount stores in Michigan and Ohio. *DSN* estimates Meijer's sales hit $3 billion last year.

Privately held Meijer, which evolved from a small grocery store opened in 1935, refuses to release sales figures. But some sales estimates range as high as $3.5 billion, said Douglas Tigert, a marketing professor at Babson College, Wellesley, Mass.

Last year, Tigert studied the four 208,000-square-foot Meijer stores in Columbus, Ohio, and concluded that sales per store are approaching $100 million. At maturity, the Columbus stores are capable of sales volume in the range of $115 million to $120 million apiece, Tigert predicted.

As a chain, Meijer sales volume runs about $65 million a week, equivalent to $3.3 billion annually, estimated Robert Potter, president of Local 951, United Food and Commercial Workers union. Potter represents 21,000 Meijer store employees in Michigan. Meijer employs a total of 34,000, including 6,000 UFCW employees in Ohio.

Stores average 600 rank and file workers and 30 managerial employees, Potter said.

Meijer has to be profitable, Potter said, because its pays union wages that are 20 percent to 30 percent higher than non-union discounters pay, yet "it never cries poor mouth during contract negotiations."

Expansion at a cost of about $18 million per store is another indicator of profitability, Potter said.

Meijer will open four more combination stores in 1989, including three in Michigan this September, and five in 1990.

Its new prototype runs about 230,000 square feet in size, Potter said, including about 15,000 square feet for leased shops, such as shoe repair, beauty shop and bank branches.

In its conservative fashion, Meijer is land-banking future store sites five years out, Tigert said.

Meijer owns four store sites in Dayton, Ohio, *Crain's Detroit Business*, reported last month in an article on Meijer, and probably will build there next year. It is considering expansion into Toledo, Ohio, and Indiana, perhaps South Bend.

Indianapolis is another probable market for Meijer, Tigert said.

Meijer opened its first combination store in 1962, the same year Carrefour opened its first hypermarket in Europe, Tigert said. The marketing professor considers Meijer a full-fledged hypermarket, although the company refers to its units as "combination stores."

In the Columbus stores, food occupies about one-third of the selling space but accounts for about 56 percent of sales, Tigert said. General merchandise accounts for about 46 percent of sales from two-thirds of floor space.

Food produces sales per square foot of $900, Tigert estimates, and general merchandise, $300, for a blended figure of $480.

Gross margins on food are 14.6 percent, Tigert estimates, and 25.3 percent on general merchandise.

"Meijer is extremely profitable," Tigert said. *Crain's* estimated 1988 profits at $54 million, down from $56 million in 1987, Tigert said.

Including depreciation, the cash flow available for expansion runs about $150 million a year, he said.

Chairman of Meijer Inc. is Fred Meijer, son of the founder, Hendrik Meijer, a former barber and foundry worker who emigrated from Holland in 1907. Meijer pays no dividends to stockholders but instead retains earnings to help finance expansion.

Last October, *Forbes* magazine included Meijer on it list of the 400 wealthiest men and women in America. It calculated his net worth to be at least $350 million.

In 1988, assets of Meijer Inc. totaled $1.08 billion, *Crain's* estimated, and long-term debt was $357 million.

Meijer's 1987 return on $516 million in equity was in the range of 9 percent to 11 percent, Tigert said. "Meijer has traded a higher return for low margins, high quality and faster growth," Tigert said.

Meijer

	1988	1987	% Change
Sales (In Millions)	$3,000	$2,750	9.1%
Earnings (In Millions)	NA	NA	—
Stores	52	51	2.0

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)
NA—not available

Source: DSN *research*

At this Meijer store in Columbus, Ohio, groceries occupy about one-third of the total selling space, yet account for about 56 percent of sales, producing sales of $900 per square foot. (DSN photo)

Fred Meyer Standing its Ground Despite Invasions of its Territory

PORTLAND, Ore. — After dominating the Pacific Northwest retail scene for many years, Fred Meyer faced an onslaught of new competition during 1988.

In July, Target Stores initiated its assault on Fred Meyer's core territory with the opening of nine stores in Washington and Oregon. By 1993, the Minneapolis-based upscale discounter expects to have some 35 stores open in the two states.

At the same time, Green Bay, Wis.-based ShopKo was infiltrating the Northwest as well. By year-end, ShopKo was operating seven stores in Idaho, seven in Utah, four in Washington and two in Montana. Plans for 1989 call for ShopKo to expand futher in the Northwest, adding one store in Idaho, three in Oregon, two in Utah and two in Washington. And, the chain continues to look in many of these areas for future growth.

Yet, despite this competitive pressure, Fred Meyer's 112 stores maintained their own growth last year. Looking at 1988 comparable store sales, Fred Meyer succeeded in generating a 7.9 percent gain. Sales increased 12.2 percent during the year to $2.07 billion, while operating income registered a 3.1 percent gain, to $54 million.

During the year, the chain devoted $101 million in capital spending to expand its market coverage and improve its existing stores. Two 164,000-square-foot multi-department stores were opened—in Washington and Oregon—seven major remodels were completed, and another three were started.

Fred Meyer also continued the development of its specialty chains, opening nine jewelry stores, one general merchandise store, one nutrition center and one apparel and shoe store during the year.

In an effort to stay ahead of the competition, Fred Meyer is increasing its expansion rate this year. Current plans call for the opening of four large multi-department stores and six to 10 specialty stores. The chain also expects to finish nine remodels and start several more during the year.

Looking into the next decade, Fred Meyer plans to open five to seven large stores in 1990 and seven to 10 in 1991. At the same time the chain will continue remodeling efforts as well as the roll-out of its specialty stores.

This accelerated growth rate is just one of the recent changes at Fred Meyer since it went under the leadership of former K mart specialty division executive Fred Stevens last year.

(Continued on page 66)

Fred Meyer

	1988	1987	% Change
Sales (In Millions)	$2,074	$1,848	12.2%
Earnings (In Millions)	57.0	54.0	5.6
Stores	112	99	3.1

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Source: DSN *research*

Pared-Down Bradlees Improves Bottom Line, Rejuvenates Image

BRAINTREE, Mass. — Bradlees approaches the turn of the decade smaller, but more profitable, having survived a takeover attempt of its parent company.

The roughly $1.4 billion debt incurred by parent Stop & Shop to thwart Dart Group's takeover bid continues to scar the grocer's financial results, but the Bradlees discount chain is clearly on the rebound.

Stop & Shop suffered a net loss of $21.5 million last year, due to leveraged buyout-related costs. Even the 10 percent sales gain during 1988 could not lift the company out of the red.

Bradlees, however, boasted a 49 percent increase in operating income during fiscal 1988, due primarily to cutbacks in advertising expenses, according to Bradlees spokesmen and the Stop & Shop 10-K report. While sales increased only 2 percent, to $2.1 billion, earnings soared to $84.9 million last year from $57 million a year earlier.

While Bradlees severely cut advertising during 1988, this year represents a new direction and reinvestment in advertising.

Bradlees will be giving "Mrs. B." a rest. As this longtime Bradlees advertising fixture goes into semi-retirement, a new corps of personalities—developed to appeal to several defined Bradlees consumer groups—will represent the chain on television.

Bradlees had conducted extensive consumer research earlier in the year to determine the composition of its shopper population and their motives for and aversions to going to Bradlees.

Banners depicting each of the new TV spokesmen were suspended above the cash registers at the Bradlees store opening in Meriden, Conn., this spring, the only store opening scheduled for 1989.

(Continued on page 67)

Bradlees

	1988	1987	% Change
Sales (In Millions)	$2,107	$2,064	2.1%
Earnings (In Millions)	84.9	57.0	48.9
Stores	131	130	0.8

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Source: DSN *research*

Forward-Looking Hills Invests In New Stores, Technology

CANTON, Mass. — Having sown the seeds for growth during 1988, Hills is flourishing this year, and stands to reap the benefits of a 42-unit expansion program.

Already the chain has converted the 33 former Gold Circle stores it acquired last year to the Hills prototype. Six other stores are slated to open this fall: three in Michigan (two in Flint and one in Saginaw), two in West Virginia (in New Martinsville and Teays) and one in Lancaster, Pa.

Opening dates have not been announced for the balance of the 42 stores which include Robinson Township, Pa., and the Ohio towns of Ironton and Gallipolis. Keeping to this agenda, Hills will start the turn of the decade with 209 stores in operation.

This aggressive agenda comes on the heels of 16 new stores opened during 1988, which included the first unit opened in its home state, in the town of Pittsfield.

As new stores were going up, however, operating income was coming down. Investment in new technologies last year held down operating income, resulting in a drop to $98 million from $104 million.

Sales surged 10 percent to $1.67 billion. Still, the sales increase was "below plan" according to the company, which attributed the less-than-expected gain to the sluggishness in women's apparel, a problem which had pervaded much of the industry last year. The downturn in women's apparel hit Hills especially hard because 55 percent of its sales during 1988 were in soft lines.

The chain's operating income was affected by a $79.1 million expense connected to Hills' investment in a new online processing system for paying merchandise inventory expenses.

A smaller portion of Hills' inventories were financed by vendors during 1988 because of this new system. As a result, Hills bought its own inventories with borrowed funds. These bank borrowings for inventory drove interest expense up by $4.2 million over last year's level.

The new store openings also increased the money Hills spent to cover its borrowings: $2.5 million was required to pay for new store leases. A $4.1 million LIFO charge also hiked interest expenses.

To further prepare for the future, the discounter will be experimenting with UPC scanning this year, setting the stage for the eventual implementation of a Quick Response ordering mode.

Other preparations for future growth during 1988 included the installation of updated merchandise planning, distribution and control systems. These systems will allow the company to move ahead with UPC scanning after completion of its UPC test at selected stores.

The chain invested in its personnel as well as its processing systems during 1988. All hourly employees are now being taught "professional customer service techniques" through printed and videotaped instruction.

Hills

	1988	1987	% Change
Sales (In Millions)	$1,671	$1,514	10.4%
Earnings (In Millions)	97.7	103.5	(5.6)
Stores	167	151	10.6

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Source: DSN research

Fred Meyer Expands to Fend Off Competitors

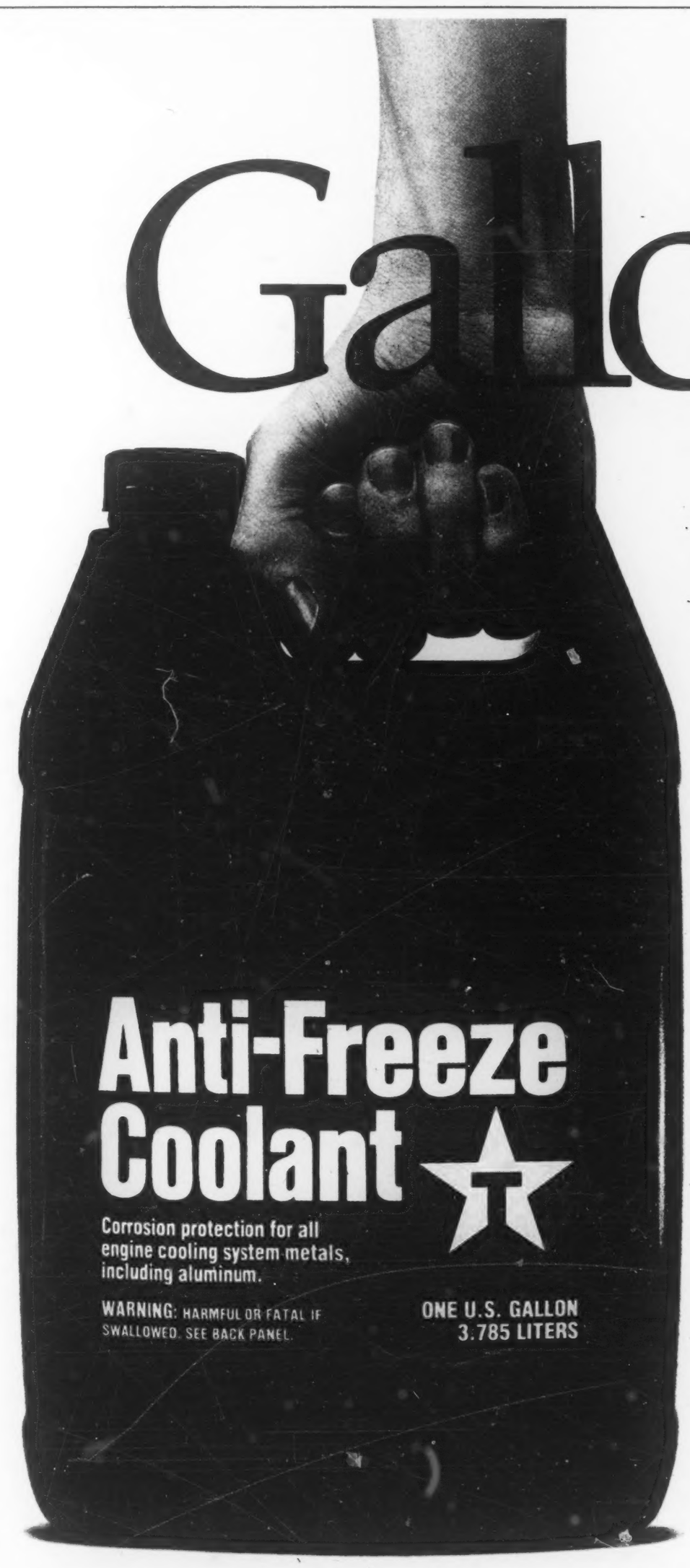
(Continued from page 64)

At Fred Meyer's helm for just over one year, Stevens has already initiated a new strategic plan that the ceo stated "emphasizes employee participation in shaping the direction of the company to achieve the following vision: 'Be the most creative, customer-respected, financially responsible, people-oriented retailer in America, and recognized as such.'"

Critical elements of the plan include employee workshops, improved employee orientation and increased job opportunity within the company ranks, Stevens said.

Stevens also continued Fred Meyer's ongoing process of refining its store layout and systems. In addition to improving store design and traffic flow with its new stores, Fred Meyer also expanded its scanning capabilities in 1988.

Twelve stores could process some 200,000 food, hard line and soft good sku's by the end of the year. Also by year-end, the chain expects to have food and non-food scanning at about 26 stores as well.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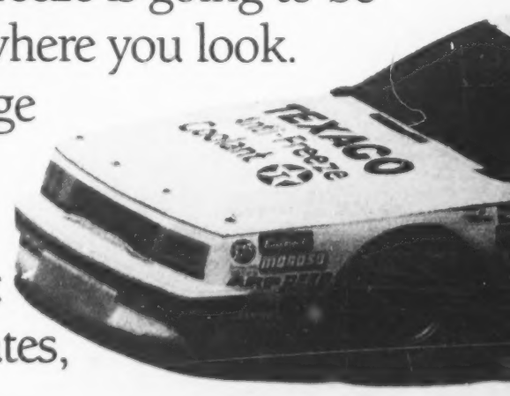

Caldor Puts the Brakes on Skidding Earnings

NORWALK, Conn. — A three-year effort to revitalize Caldor under its new owners, May Department Stores, appears to be bearing fruit.

Based on results to date, Caldor expects to report an increase in operating income for 1989, a company spokesman said. That would turn around a four-year slide in profits from $85 million in 1985 to $50 million in 1988, or a decline of 41.2 percent. Over the same four years, sales rose 22.8 percent to $1.55 billion in 1988 from $1.28 billion in 1985.

The profit ratio of earnings to sales skidded over the four years to 3.1 percent in 1988 from 6.6 percent in 1985. Its return on beginning net assets fell in the same period to 14.4 percent from 23.8 percent. Despite this improvement, at presstime, May reported it was seeking a buyer for its Caldor and Venture discount chains.

Under May, Caldor adopted a strategy of cutting gross margins in attempts to become more competitive, said Dan Barry, retail analyst for Kidder Peabody.

Operating income is starting to turn around, Barry said. Although May has released no figures, May executives seem pleased with Caldor's increased operating profit in the first quarter, compared to the same period in 1988, he said.

Caldor

	1988	1987	% Change
Sales (In Millions)	$1,574	$1,502	4.8%
Earnings (In Millions)	50.0	56.0	(10.7)
Stores	119	116	2.6

Earnings: operating income (profit/loss from continuing operations, before taxes and extraordinary items)

Source: DSN research

Caldor enjoyed a strong first quarter, with same store sales increasing 9.7 percent. Sales rose to $317.9 million during the quarter ended April 1989, a gain of 12 percent from the year-earlier figure of $283.4 million.

In 1988, same store sales rose 2.6 percent and in 1987 7.7 percent. May declines to break out chain operating income on a quarterly basis.

For Caldor capital outlays in 1989, May increased allocations to $44 million from $42 million in 1988.

The bulk of the funds will go toward remodeling 20 stores encompassing 2.1 million square feet of retail space, with only one new unit for 1989. That store, located in Marlboro, N.J., opened in March, pushing store count to 120 units operating in eight Northeastern states.

Caldor opened three new stores in 1988 to its first-ever prototype and will open five more units of the 83,000-square-foot prototype in 1990, as well as renovate 20 more existing stores. Caldor's five-year expansion program calls for 25 new units from 1989 through 1993.

Caldor was built on opportunistic store acquisitions, and, consequently, it must contend with stores that range from 50,000 square feet in Stamford, Conn., to 171,000 square feet in Pelham Manor, N.Y., as well as a wide range of store shapes, including 13 two-story units. That makes it difficult to squeeze in a standard inventory mix, Caldor president Marc Balmuth said.

The renovated stores all will get a standard racetrack layout and a consumer electronics corral, or bullpen. For greater security, the corral will have just a single entrance and exit and its own checkout register that will be staffed at all times.

The renovated units will be outfitted with high-impact merchandising fixtures, including high-low apparel racks, new carpeting and new signage. The aisles will feature more impulse tables.

Smaller Bradlees Registers 48.9% Jump in Earnings

(Continued from page 64)

The Meriden unit was the first to offer shoppers a separate layette department, which will be incorporated into any future store openings and all store remodelings.

Strollers, car seats, crib sheets, infant clothing and other newborn-related merchandise are sold in the layette department. By separating these items from general juvenile categories, Bradlees has increased its space commitment to total children's merchandise, a growing sales and profit center.

During the past year, the company also decided it would no longer attempt to sell off its Philadelphia stores. At first, Bradlees tried to sell those locations along with its Southern stores. The chain's 33 Southern division stores were acquired last year by Hechinger, the Landover, Md.-based home improvement chain.

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Herman's Likely to Be Sold as Result of Takeover Battle

(Continued from page 3)
lion for the year from $640 million the previous year.

Gateway blamed Herman's poor performance during the year ended April 30, 1988, for its decline last year in per-share earnings.

Herman's operating income plunged 67.7 percent to 8.2 million pounds (about $13.9 million) from 25.4 million pounds (about $43.2 million) the previous year. Sales remained essentially flat at $640 million in fiscal 1988, compared with $630.7 million a year earlier.

Operating income margin fell to 2.18 percent, from 6.85 percent a year earlier.

Accordingly, Gateway said last July in its annual report that future expansion for Herman's into new markets "will be less marked." Instead, "the emphasis will be on opening stores within existing and recently developed markets."

Nonetheless, the "Herman's franchise remains very strong," Gateway said. Balancing the picture, Gateway said that Herman's opened a new shoe warehouse in Carteret, N.J., and enlarged an existing warehouse. The improvements "substantially reduced the problems of servicing this rapidly expanding chain," the report noted.

Herman's, the closest the United States has to a national sporting goods chain, started 1989 with 260 stores and plans to open 15 more by year-end.

Largely through acquisition of chains, Thrifty Corp. is threatening to knock Herman's out of first place in consolidated sales. Estimated sales for the 10 chains that operate under the Thrifty umbrella totaled $635 million last year from 233 stores of varying sizes.

Despite the trend toward opening sporting goods warehouses that offer complete lines of sporting goods apparel, athletic shoes, equipment—and staff to service equipment—Herman's is sticking with its format of 10,000-square-foot stores.

These units emphasize apparel and footwear and can offer only limited equipment and service compared to the 40,000-square-foot to 75,000-square-foot warehouse units of Sportmart, Sports Town, Sports Authority and Casey's Sports Castles, a Thrifty chain.

In 1985, when W.R. Grace owned Herman's, it tested an 18,550-square-foot store concept called Total Sports in Florida. Its everyday prices ran 10 percent to 30 percent less than Herman's. Merchandise was geared for lower-income customers, compared with the more affluent shoppers at Herman's. But Herman's scrapped Total Sports following a two-store test.

Last year, Oshman's invaded Herman's northern New Jersey territory by opening two of its 30,000-square-foot SuperSports USA stores, one in Princeton and another in Union, N.J. It now operates five megastores.

Herman's also owns Sunset Sports, a 41-unit chain based in Salt Lake City, Utah.

Fred Meyer Restructures Functions

(Continued from page 3)
While the vertical structure of merchandising specialization by department remains intact, the elimination of operational duties in each division prevents duplicated efforts and streamlines the company, Green said.

The restructuring move is just one of several major steps taken by the 112-store one-stop-shopping chain since former K mart executive Frederick "Steve" Stevens took over as chairman and ceo just over a year ago.

In his speech to shareholders, Stevens outlined five other strategic company goals:

- Increase market share by aggressively remodeling stores, and opening new stores in existing and new markets, including California;
- Merchandise and market specialization based on store geography and demographics. Although this step is about a year away, the new operational structure and the company's management information systems are being geared toward this eventuality;
- Further development of MIS capabilities, a department which has also been recently reorganized;
- Improved employee training in light of the increasingly competitive market and work force shortage;
- Stronger community involvement.

In discussing 1988's financial results, Fred Meyer execs noted that while it did face tough competition during the year, the chain still managed to increase sales and earnings.

First quarter 1989 figures show the chain still holding a strong position. Sales during the period rose 9.6 percent, to $620 million, despite the adverse impact of a grocery workers' strike in Seattle.

While sales were up, net income was relatively flat, due to an increase in the chain's inventory charge and a rise in interest expense. Net income in the first quarter of 1989 hit $5.74 million, just above the $5.70 million posted in the same period a year ago.

PACE to Install Interactive Kiosks

(Continued from page 1)
ware to monitor the terminals and, if possible, make corrections or else inform ByVideo of potential problems.

PACE isn't the first membership warehouse to deploy informational terminals. Sam's Wholesale Club tested kiosks providing information on General Tire products in four warehouses last year. The test was dropped when the kiosk vendor couldn't service the units and eventually went out of business.

PACE's installation of the kiosks is part of the 40-store chain's efforts to augment services to members as well as strengthen its position in what is rapidly becoming a more competitive industry.

This competition will see PACE open two warehouses in the greater Philadelphia area this fall, its first venture into a market already contested by BJ's Wholesale Club and Makro, which have stores there and Price Club and Sam's, which plan to open units there.

Overall, PACE plans to open eight clubs this year, including its fifth units each in Atlanta, Detroit and Denver, where Sam's, Warehouse Club and Buyers Club have stores. Other PACEs are set for Saginaw and Kalamazoo, Mich., and Raleigh, N.C.

PACE's other service enhancement moves include:

- Adding a pre-packaged fresh meat, pork and poultry section to its 10 stores in California as an expansion of its fresh products. The fresh meats were provided as a service to the chain's over 4,000 restaurant members in the state, but the products can be purchased by any customer.

The pre-packaged USDA Choice merchandise is supplied by an outside vendor who makes daily deliveries.

- Testing an in-house meat cutting operation and scratch bakery in the Baltimore warehouse as a prelude to possible chainwide deployment of these services. The meat cutting operation offers bulk sales, rather than goods in consumer sizes, of meat, pork and poultry. The meat and bakery ventures are modeled on similar operations in a number of Costco stores.

PACE was "very pleased with the sales" of the fresh meat operation in Baltimore. But "we need to look at operational issues like spoilage and make sure our controls are in place before we decide on any possible chainwide expansion," Steinbrueck said.

The chain expects to "identify" the control issues by the end of July and then decide on any expansion plans, he said.

- Developing a convenience store assortment focused on the food and equipment used by members like gas stations, "mom and pop" groceries and convenience stores who are interested in this fast-growing merchandise category. The foods, hot dogs, hamburger meat, buns, chili and cheese sauces, for example, are stocked in the grocery area while all the equipment, hot dog grills, commercial coffee makers and cheese servers, are displayed together in the hard lines area.
- Tagging a consistent core mix of basic institutional foods and office products that will always be carried as "B" items. A special colored tag with a "B" is posted on the upper right corner of the price signs for these goods.

Steinbrueck said that business members had indicated they wanted consistent merchandise—the same products from the same vendors—for such basics as institutional size cans of vegetables, computer paper and legal pads. PACE had selected this basic assortment a few years ago and now is identifying these items through the "B" item program.

- Discontinuing its test credit card program because the financial firm underwriting the venture provided poor service to members. PACE is exploring alternative programs.

Chains Shelve Apparel Worries

(Continued from page 1)
new sanctions on China, but it did not include the removal of MFN status or any other sanction that would disrupt business as usual between Chinese apparel and textile exporters and U.S. apparel manufacturers and retailers.

As long as the U.S. government doesn't seek further sanctions, most retailers feel the last thing China wants is a disruption in the flow of apparel to the United States.

"Apparel is China's No. 1 export," said Thomas Unrine, president of Hit or Miss, the women's fashion apparel off-pricer division of TJX Cos. "It's their economic base. Things would really have to get bad over there before any real disruptions occur."

A government affairs spokesman for K mart said, "We've had no problems. Just minor shipping delays."

Stu Kessler, vice president and general merchandise manager, ladies' wear and cosmetics at Ames, said, "We're expecting a week to two week delays at most."

Kessler added that Ames has formulated certain contingency buying plans in case the situation worsens in China, but he emphasized that, as things stand now, the chain plans no buying moves. He did say, however, that there "might be a ripple effect that would cause prices on spring 1990 goods to increase," but that isn't yet known for sure.

Joe Ettore, senior vp and gmm for all soft lines at Jamesway, said he thinks there's a good chance prices will go up on certain spring items because of the situation in China.

Over the last several years, with a large increase in cut-and-sewn subcontracting by Hong Kong in China, the latter country has become the largest apparel and fabric supplier to the United States.

McNulty to Launch Auto Warehouse Club

(Continued from page 3)
McNulty's start-up venture operation, American Business Ventures.

Auto Giant is constrained about what it can say to promote the new venture because of Securities and Exchange Commission regulations, said Douglas McLellan, director of investor relations for American Business Ventures. The SEC imposes a "quiet period" of 60 days prior to filing an initial public offering (IPO) with the SEC, McLellan said.

Since Auto Giant is within that 60-day quiet period, the indications are that it will file its IPO sometime in August.

For HQ Office Supplies Warehouse, McNulty raised an initial $7 million in an IPO last October and $20 million more by this June. It has opened about seven stores.

Auto Giant will offer several brands of tires, along with complete automotive service, McLellan said. It also expects to make a statement in light truck, van and 4X4 accessories, the fastest growing segment of the aftermarket.

In March, a bankruptcy trustee ordered the liquidation of McNulty's SportsClub. At one time the chain operated eight sporting goods warehouses, but was down to four when the hammer fell.

The SportsClub bankruptcy will have absolutely no effect on the Auto Giant venture, McLellan predicted. As a basis for his optimism, he pointed to the ease with which McNulty raised $27 million from the public for his office supplies warehouse start-up.

McNulty's reputation is built largely on his success with HomeClub, a home center chain he subsequently sold to the former Zayre Corp.

In a restructuring last month, Zayre spun off HomeClub and BJ's Wholesale Club into Waban Inc. Wall Street valued the new corporation's stock at $508 million. While no breakdown of that value is available, HomeClub obviously accounted for the lion's share, with 49 units to 22 for BJ's.

DISCOUNT STORE NEWS

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Discount Store News®

THE NEWSPAPER OF DISCOUNT RETAILING

SECOND CLASS

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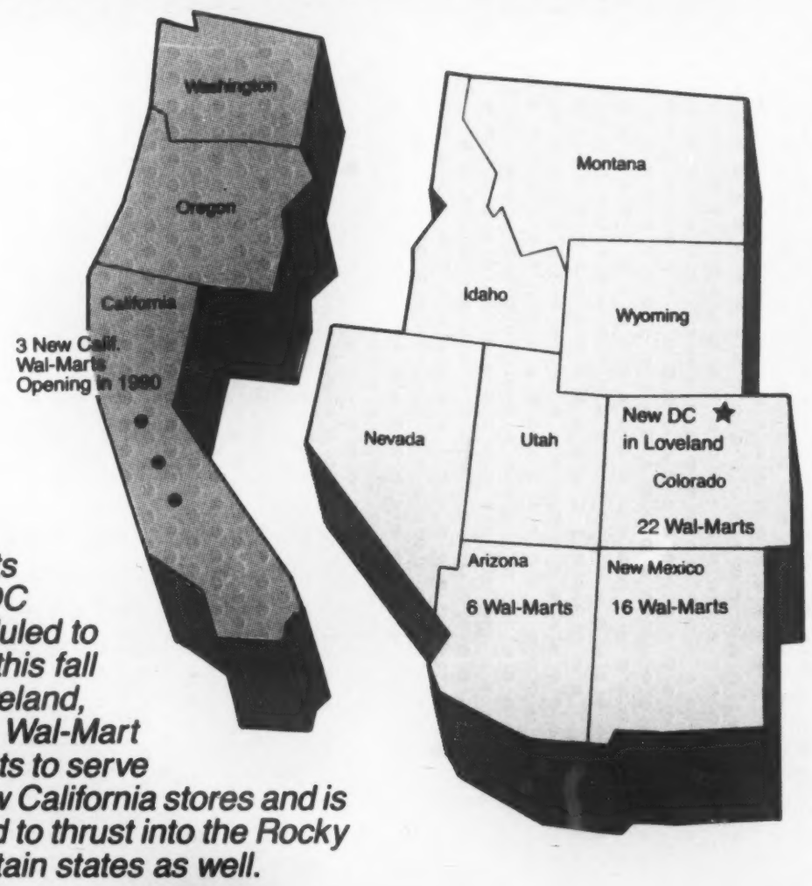
Wal-Mart Goes Coast to Coast

California Beckons as Next Port of Call

Wal-Mart Attacks on the Western Front



With its new DC scheduled to open this fall in Loveland, Colo., Wal-Mart expects to serve its new California stores and is poised to thrust into the Rocky Mountain states as well.

By Arthur Markowitz

BENTONVILLE, Ark. — Wal-Mart will open its first three stores in California next year as it slowly and steadily marches across the country.

The company will also open three more regional distribution centers—one targeted to serve stores in Western states—in 1990 to bring to 15 its total number of DCs.

The DCs supply over 75 percent of the merchandise sold by Wal-Mart, providing vital support for the chain's race with Target to become the second national discounter after K mart. K mart already has stores in all the 48 contiguous states.

Target has about one-quarter of the number of Wal-Mart units, but that chain is already in 29 states, 20 that also include Wal-Marts.

California will become the 26th state in which Wal-Mart has stores. Its three units will be in central California in Stockton and Elk Grove (110,000 square feet each) and Madera (99,500 square feet).

The move into California is a natural expansion from Arizona and New Mexico, where the discounter presently has stores, said Donald G. Soderquist, vice chairman and chief operating officer.

"Our expansion plan is to grow from where we already have stores, ultimately going into all the states," he added.

Wal-Mart executives declined to comment on future growth plans for California or the other states where it doesn't have discount stores.

The company has already opened about 50 Wal-Marts this year, all in states where it currently has stores.

Wal-Mart's California move became known when the

(Continued on page 83)

Sam's Plans 1990 Debut In Six States

BENTONVILLE, Ark. — Sam's Wholesale Club plans to enter Iowa and expand its presence in North Carolina and Wisconsin as part of its drive to become a multi-unit operation in as many states as possible.

The six Sam's planned for the three states are among the more than two dozen units the Wal-Mart division is due to open during 1990 and 1991 (see *DSN*, July 3, page 1). This expansion will mark Sam's debut in five states besides Iowa in 1990: Pennsylvania with 10 units including three in the Philadelphia market; New York with

(Continued on page 83)

With $820 million in sales last year, BJ's turned a $4 million loss into an $11 million operational profit in 1988. (DSN photo)

BJ's Plans Club Expansion To Secure Northeast Hold

NATICK, Mass. — BJ's Wholesale Club plans to open six stores by the end of next year, five of which will be in the chain's Northeast home market which is being assaulted by four other membership warehouses.

BJ's in the next few months will open stores in North Dartmouth, Mass., Milford, Conn., and Edison, N.J., along with a store in the Sunrise suburb of Fort Lauderdale, Fla.

The other two BJ's will open next year in Bedford, N.H., and Ocean Township, N.J. The

(Continued on page 86)

Dayton Hudson Unloads Lechmere

Target Parent Unlikely to Use Proceeds to Purchase Caldor

By Richard C. Halverson

MINNEAPOLIS — Dayton Hudson won't use the $350 million or so it will get for selling its Lechmere chain to buy Caldor for a swift expansion of Target into the Northeast.

At least that's how retail analysts view Dayton Hudson's announcement last month that it has reached a definitive agreement to sell the 29-unit Lechmere chain, in a leveraged buyout, to Berkshire Partners, a Boston investment group.

Lechmere management, including chairman and chief executive officer George Scala, will receive an undisclosed equity share of the business. That word came a month after May Department Stores put Caldor and Venture on the block (see *DSN*, July 17, 1989, page 1).

Following the Lechmere announcement, Salomon Brothers analyst Bruce Missett reiterated in an investment advisory his belief that D-H won't bid for either Caldor or Venture.

Missett estimated that Lechmere will fetch between $300 million and $350 million,

(Continued on page 81)

Lechmere

Chairman, CEO: George Scala
Headquarters: Woburn, Mass.
No. of Stores: 29
1988 Sales: $769 million
Operating Profits: $22 million

Source: Dayton Hudson

Heck's Sees Light at End Of Bankruptcy Tunnel

NITRO, W.Va. — Heck's faces one last hurdle before emerging from Chapter 11 bankruptcy and expects to clear that by mid-August.

The hurdle is a Bankruptcy Court stipulation that it must secure an $8 million line of credit, said chief financial officer Maarten Hemsley. Heck's is confident that it will succeed because the Hallwood Group, New York merchant bankers that have been aiding Heck's, has agreed

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MARKETWATCH

K mart Names Parker to New Sales Post

TROY, Mich. — K mart has created the new position of vice president, sales, to strengthen its in-store merchandising endeavors. In a rare move, the discounter went outside the company to fill the senior management position. William H. Parker, formerly senior vp and general merchandise manager of Carson Pirie Scott, was named to the post, which oversees all store sales promotion and sales support activities. Parker reports to William D. Underwood, senior vp, general manager. Reporting to Parker are Norm Roberts, director of sales support, and David Schubie, director of merchandise coordination.

PACE Tests All Paid Member Program

AURORA, Colo. — PACE is testing a paid membership-only program at its Cathedral City, Calif., wholesale club to see whether such a plan will result in higher sales. Paid members tend to shop more often and buy more merchandise, a PACE spokeswomen said. The Cathedral City store has about 19,000 paid members. Group members, who don't pay any fee for their membership, can become paid Premier members by paying a $25 yearly fee. Group members, who don't become Premier members, can still shop at PACE's other stores.

10,000 Homes Plug into Gateway Service

HOUSTON — Southwestern Bell has signed up its 10,000th subscriber to SourceLine, its videotex gateway venture just two months after launching the shopping and information service in Houston. SourceLine, which is accessed through either a personal computer or a dedicated U.S. Videotel terminal, is one of four gateways launched by regional telephone companies. The others are Nynex's INFO-LOOK, Bell Atlantic's Gateway and US West's Community Link.

HQ Office Supplies Exchanges Warrants

LONG BEACH, Calif. — HQ Office Supplies raised about $12.3 million from the redemption of 99.8 percent of its outstanding Class B warrants. An earlier redemption of Class A warrants raised $6.6 million. The office supply chain, with six stores in Southern California and one in Las Vegas, will use the funds to open eight more units this year in California, Arizona, Washington and Oregon.

Closer and Closer to DAT

NEW YORK — Digital audio tape hardware producers and U.S. recorded music industry associations have signed an agreement that may have the long-awaited DAT recorder on the U.S. market in time for Christmas. The agreement stipulates that while DAT owners will be able to make tapes from any digital source, the resulting tapes will not be reproducible digitally.

Cohoes' Creditors Reject Burlington Bid

NEW YORK — Cohoes Specialty Stores' creditors committee has rejected Burlington Coat Factory's proposal to acquire Cohoes' remaining assets. The creditors said the deal would have provided them with virtually no return—unsecured creditors would have received only 1 percent to 2 percent of their claims. Cohoes' next move isn't known, but it could still try to get the Federal Bankruptcy Court to approval sale of three Cohoes to Burlington. Burlington has already purchased Cohoes' inventory for $3.2 million and has been running liquidation sales at three of the five Cohoes.

FOR THE RECORD

Dollar General's sales for the 12 months ended Jan. 31, 1989, were $612,986,000, a 4.3 percent increase over $587,687,000 in the 12-month period ended Jan. 31, 1988. *DSN*'s list of the top 150 discount chains incorrectly estimated Dollar General's sales for calendar year 1988.

The page 1 story in *DSN*'s July 3 issue outlined numerous achievements of Wal-Mart Stores as among the reasons the retailer has been named Retailer of the Decade. Several of the statements about Wal-Mart were attributed to "industry analysts and observers." The comments should have been specifically attributed to Bernard Sosnick of Deutsche Bank Group and Jack Seibald of Salomon Brothers, two retail analysts and experts on Wal-Mart. *DSN*'s special full-issue study of Wal-Mart, including original and exclusive consumer research, will appear in the Dec. 18 issue.

G.I. Joes Crosses Border; Opens 1st Wash. State Unit

WILSONVILLE, Ore. — G.I. Joes, the regional discount chain based here, has opened its first store outside of Oregon in nearby Vancouver, Wash.

The new store is the chain's 12th overall and is actually located in an area that is considered part of the Portland, Ore., Standard Metropolitan Statistical Area despite its Washington state address. G.I. Joes already operated six stores in the greater Portland area prior to this opening.

The new 55,000-square-foot Vancouver store is the first of two to open during this year. In October, the chain expects to open a store in Albany, Ore., and next year G.I. Joes will enter Washington's Puget Sound area with stores in both Puyallup and Federal Way.

According to the retailer, the new Vancouver store's primary focus is on automotives and sporting goods products. However, the store's mix also includes athletic shoes and clothing, hardware, gardening, housewares and home electronics. The chain expects to post sales in excess of $125 million this year.

Kohn Steps Down as Stuarts Prez; Poor Health Forces Advisory Role

HOPKINTON, Mass. — Harry Kohn Jr., president and chief executive officer of Stuarts Department Stores since 1987, will not be returning to active management at the company following a heart attack he suffered in mid-April.

Marc Ostrow, chairman of Stuarts, will assume Kohn's responsibilities until a replacement is found. Kohn will officially cease management of the chain Sept. 1, but will continue to be a company advisor until a replacement has been hired and trained.

Speaking of Kohn, Ostrow said, "He is doing well right now, but his doctors have advised against returning to work at this time."

Ostrow said he will work with a three-man management committee consisting of Earl Spokane, chief financial officer; David Ferguson, senior vice president, stores; and Anthony Cincotta, senior vp, merchandising, marketing and sales, to ensure that the chain is run smoothly until a replacement has been found. A new president should be named well before the end of the year, Ostrow said.

Kohn told *DSN* that his plans for the future include "consulting and advising other retail and manufacturing businesses." He hopes to find opportunities on various boards of directors after his work with Stuarts is completed in September.

Harry Kohn Jr. presided over the grand opening of Stuarts' newest store in New Bedford, Mass., in March. (DSN photo)

Kohn said his most significant and fulfilling impact on retailing stemmed from training other people. "The greatest pleasure for me in retailing was in the accomplishment of those people who I've helped to train and develop . . . people who have worked for me and who have moved ahead."

Under Kohn's direction, Stuarts opened two highly profitable stores and closed two unprofitable units; two other units, formerly Mars locations, are slated to open during the first week of August. Eleven stores were remodeled to conform to a new chain prototype while Kohn was in charge.

Kohn came to the regional discount chain in February of 1987 after serving as president of Bradlees for nearly four years. He came to Bradlees, the Braintree, Mass.-based discounter in 1978 as vice president and general merchandise manager and was promoted to executive vp before he was named president in 1983.

His career also includes apparel posts and ultimately senior vice president with Abraham & Strauss, from 1962 to 1978, and Marlboro Shirt Co., a Baltimore-based men's wear manufacturer, from 1955 to 1962. Kohn, now 62, first entered retailing after college when he joined Lazarus Department Stores. He began work at store level in 1948 and worked his way up to men's wear buyer by 1955.

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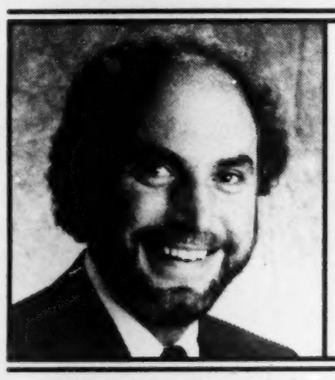
EDITORIAL

Retailer Apathy Turns Off Consumers



TONY LISANTI
Editor

Economic indicators. Everyday there is constant barrage of statistics—the GNP, inflation, housing starts, consumer spending, and on and on. Then to complicate matters and confuse everyone there is endless rhetoric about how this data will impact the economy in the next quarter. This plethora of comments from economists and analysts have suggested doom, gloom and boom. And that's what's mindboggling. There are more opinions about the threat of a recession than there are opinions about the Pete Rose controversy!

For the past several months, attention has been focused on the debate over whether or not the United States is headed for a serious recession this fall or in early 1990. And, one of the most often asked questions is about the economy. In fact, the question was posed to me a few weeks ago by a top ceo at one of the nation's largest retailers.

At first, I cringe when someone asks, "So, Tony, what's business going to be like this fall?" But, since *DSN* monitors the data and our editors closely follow the industry, I figure why not add my opinion to the list!

So, I answered (and all of sudden I felt like I was talking in a slow, deep monotone voice), "Well, I was never overly concerned about a recession, but I am becoming nervous about a decline in consumer spending . . . ."

The retailer sat back in his chair and responded that he was also concerned about a sharp decline in consumer spending but for a different reason. He was concerned not because consumers have less money to spend, but because they are simply not spending.

"Why," I asked. He answered that there is nothing exciting for them to buy.

Now that's a scary scenario. An apathetic consumer!

Well, is this just another opinion? Who do you believe? How do you plan and budget accurately for the holiday season and the coming year? No doubt it's a difficult problem. No retailer wants to be stuck with excessive inventories. No retailer can afford excessive markdowns. No retailer can allow apathy to destroy their business.

Most retailers are afraid to gamble and, therefore, take a conservative approach. "Cautious optimism" is all you ever hear and I'm sick of it.

Is it possible that this conservative attitude has created apathy among customers? Is it also possible that apathy among retailers has created apathy among customers?

If there is truth in this hypothesis, the challenge for retailers and vendors as well is to stimulate a renewed interest in shopping. New and exciting products combined with creative and aggressive merchandising will help stimulate sales. One thing is certain: Apathy cannot be tolerated in retailing.

WASHINGTON REPORT

National Health Insurance Is Faulty Medicine

KEN RANKIN

Senator Ted Kennedy, D-Mass., and other advocates of federally mandated health insurance benefits for workers make a pretty good case for this kind of legislation.

At least they make a good case for some type of new government initiative to protect families and the economy from the potentially devastating cost of health care.

The problem they seek to correct is certainly serious. Some 40 million American employees and their dependents are not covered by health insurance of any kind.

Given the cost of health care today, a single serious illness could financially wipe out any one of these uninsured families in short order.

To combat this problem, Kennedy's proposal would require employers to offer paid health insurance benefits to workers. Under the approach sought by Kennedy and others, discounters and other businesses over a certain size would be expected to offer a minimum package of benefits, including coverage of hospital and medical costs, prenatal and well-baby care, mental health treatment and catastrophic expenses.

If your chain already offers health insurance benefits to employees, Kennedy's scheme may not sound bad at all. Indeed, you might reason, a mandated health insurance law would prevent cheapskate competitors who don't offer such benefits to their workers from gaining an edge on your chain.

Stop right there, though. There are more than a few problems with Sen. Kennedy's plan.

First off, it's expensive. According to some estimates the kind of coverage Kennedy proposes could run as much as $2,000 a year for a family policy.

More importantly, it wouldn't just apply to full-time employees. Employers would have to offer full benefits to part-timers who work as little as 17½ hours per week.

As a result, it could raise the cost of employing part-time employees as much as 60 percent!

Discount retailers have come to rely heavily on part-time workers to meet store staffing needs. By the same token, women with family responsibilities, students, and others unable to accept full-time jobs depend heavily on part-time employment.

If Sen. Kennedy's mandated health plan is enacted, many if not most of these part-timers will find themselves literally priced out of the job market. They can't afford that, and neither can our economy.

IMRA PRESIDENT'S CORNER

Check Your Calendar for Our Fall Conferences

RICHARD HERSH

With the middle of summer upon us and most people thinking about vacations, IMRA and its steering committees are in the process of finalizing programs for our fall conference program.

With two returning conferences and one brand new conference, this fall promises to be an exciting one for the industry.

IMRA will kick things off with the Loss Prevention Auditing & Shortage Control Conference at the Westin Oaks in Houston. This conference, beginning September 10, has grown in stature over the years and, with the able assistance of chairman Richard Laucks of ShopKo and board liaison Peter Hollis of Ames, this year's conference looks stronger than ever.

Highlighted by a keynote address by Hollis, the conference also welcomes back Jack Shewmaker to discuss "Discount Retailing in the'90s." Other major programs will be given by R. Keegan Federal Jr., addressing "Legal Challenges Facing Loss Prevention Executives" and Bonnie Rack speaking on "Substance Abuse in the Workshop."

Less than two weeks later, IMRA will hold the Financial and MIS Conference at the Hyatt Regency in San Francisco. Highlights of the conference include Jack Shewmaker again, this time speaking on the topic of "Managing Change."

John Phipps of Touche Ross will address the topic "Systems for the 1990s—Survival and Success." This will be followed later with a session on the latest in direct profit profitability (DPP), also presented by Touche Ross.

One of the general sessions will welcome Professor Milton Bergstein of The Pennsylvania State University dealing with "Leadership Skills." His challenging and thought-provoking presentation will make you all look at how you view others in the framework of both business and personal lives.

Our eighth yearly conference will be held for the first time in Dallas at the Grand Kempinski Hotel from Nov. 29 to Dec. 1. Under the guidance of IMRA chairman William Atkinson, the committee has worked long and hard to make the initial conference something special. Complete information on this conference will be in the mail soon and you can expect the same high quality, issue-oriented program for which IMRA is famous.

For further information on any of the conferences, call Debra Dohnert at IMRA's New York office: (212) 354-6600.

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We welcome our readers' views, whether pro or con. Letters to the editor should be addressed to: Editor, *Discount Store News*, 425 Park Ave., New York, NY 10022.

Study: Hardware Holds Untapped Potential

Nationwide DSN Report

A consumer study of 15 departments of a discount store showed that hardware offers some surprising growth potential if discounters invest in improving the depth and quality of their assortments.

The study reveals that the spending inclination of consumers on hardware supplies is relatively high compared to other merchandise categories, but discount store customers do not view the current offerings at discount department stores as being competitive with other retailers that sell the same products.

Hardware falls into a group of merchandise categories, along with women's clothes, and auto supplies and accessories, that the survey identifies as having moderate growth potential. These departments trail high growth potential categories, like toys, housewares, H&BA and stationery.

But hardware appears to be a better candidate for growth than "mature" departments like sporting goods, electronics, cameras and accessories, and men's clothes, where there was no inclination among customers to increase spending and a high tendency for customers to shift spending to other types of retailers.

The study, based on telephone interviews with 900 households across the nation, found that 58 percent of consumers who purchased some hardware supplies in the past year bought at least some of their hardware at a discount department store.

That's not bad compared to the other departments. For example, only 40 percent of consumer electronics purchasers and 39 percent of men's apparel buyers used a discount department store for some of their purchases. The average percentage of discount shoppers for all 15 departments in the survey was 57 percent.

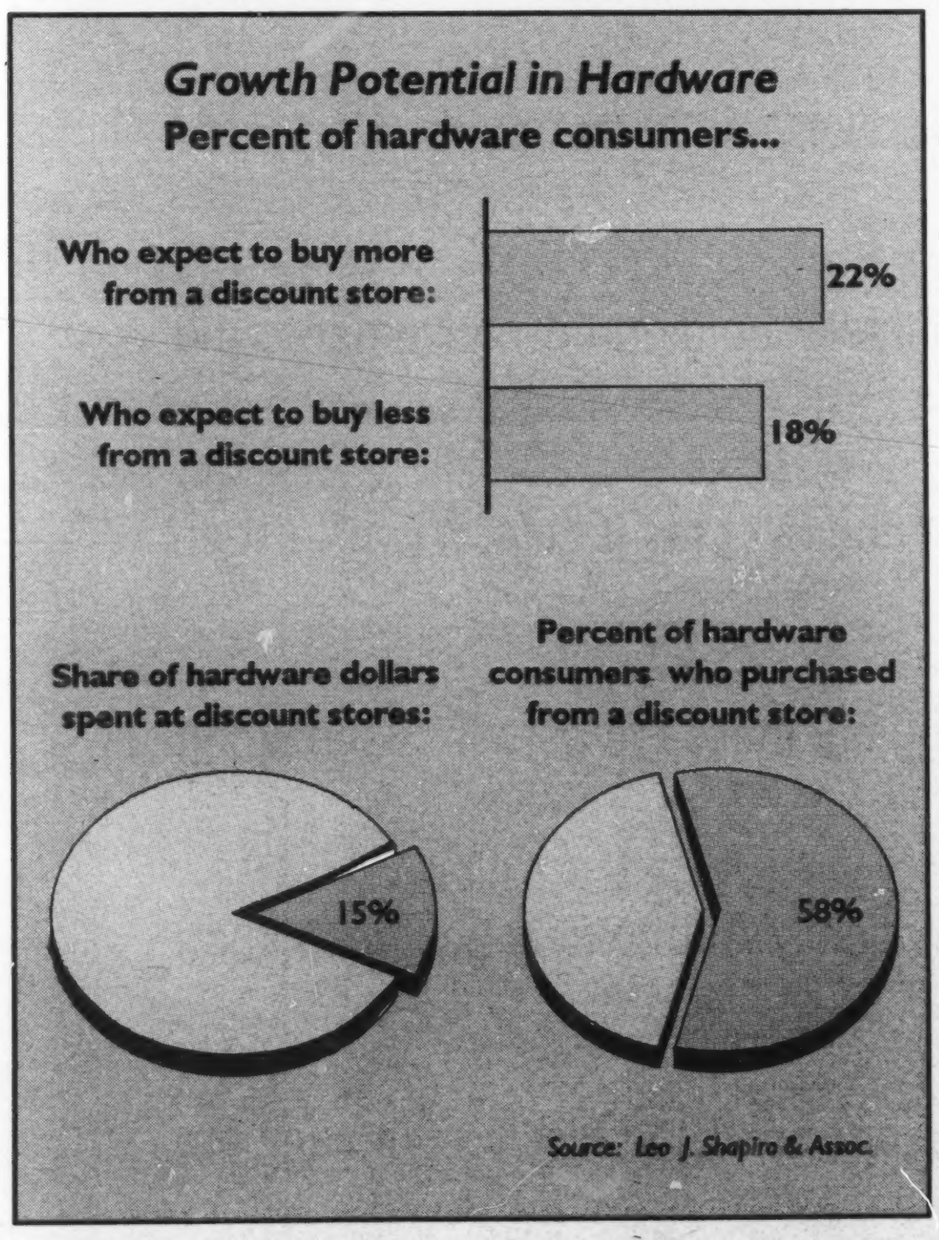
However, the study shows that discounters need to entice those customers who are buying hardware to spend more money at their stores.

Last year, only 15 percent of the dollars spent on hardware by discount store customers was spent at a discount store. That figure ranked ninth of the 15 departments studied. By comparison, discount stores garnered over 40 percent of the total dollars spent by shoppers who bought toys and housewares.

Consumers were also asked whether they expected to buy more or less products from each of the 15 departments in the survey. Hardware, with 22 percent of respondents expecting to spend more at a discount department store, showed a relatively strong potential for sales growth. However, discounters will have a tough time cultivating that potential if they don't change consumers' views of their hardware departments.

Asked to grade each department based on their experience in purchasing merchandise at discount stores and other types of retailers, consumers gave discounters' hardware departments a mediocre score of 6.15 on a scale of 1 to 9, with 9 meaning it's the "best" place to make their purchase. Of the 15 departments, hardware ranked 10th in this measure of competitiveness. In all, 15 percent of hardware purchasers said the discount store's hardware department was the "best" place to shop for hardware supplies.

(Continued on page 59)


Growth Potential in Hardware
Percent of hardware consumers...
Who expect to buy more from a discount store:
22%
Who expect to buy less from a discount store:
18%
Share of hardware dollars spent at discount stores:
15%
Percent of hardware consumers who purchased from a discount store:
58%
Source: Leo J. Shapiro & Assoc.

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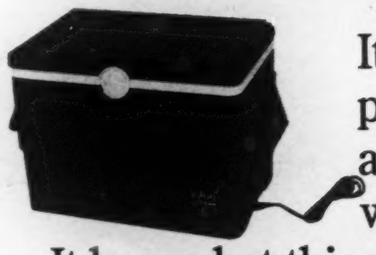

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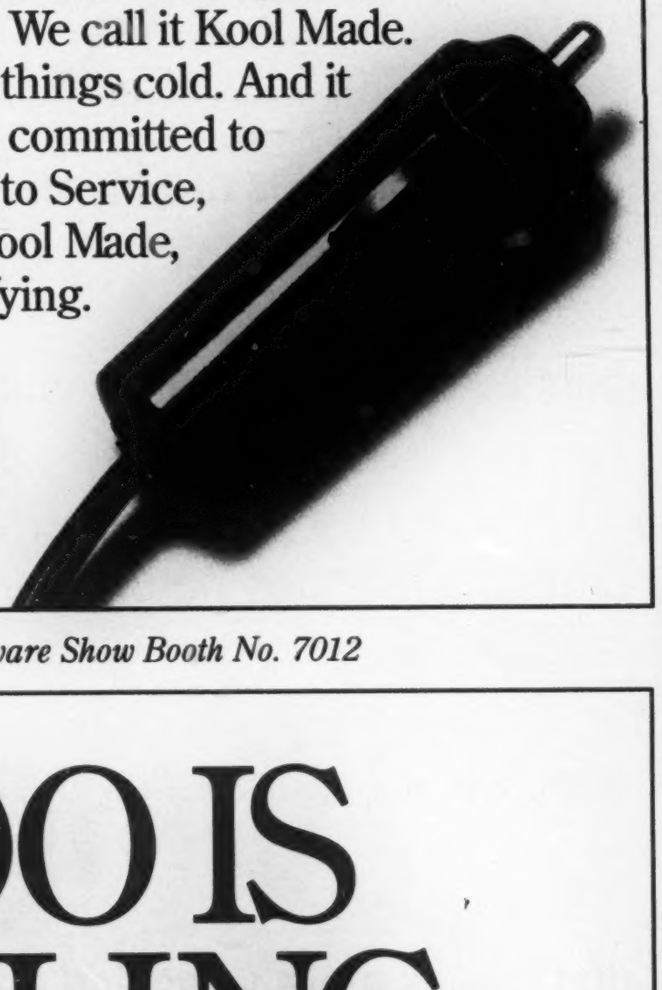

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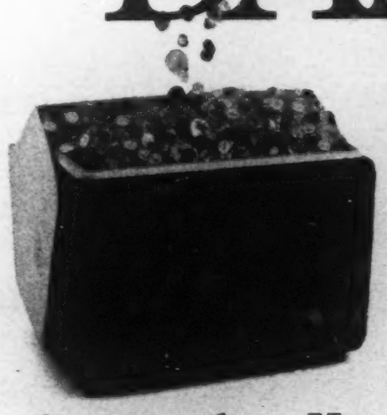

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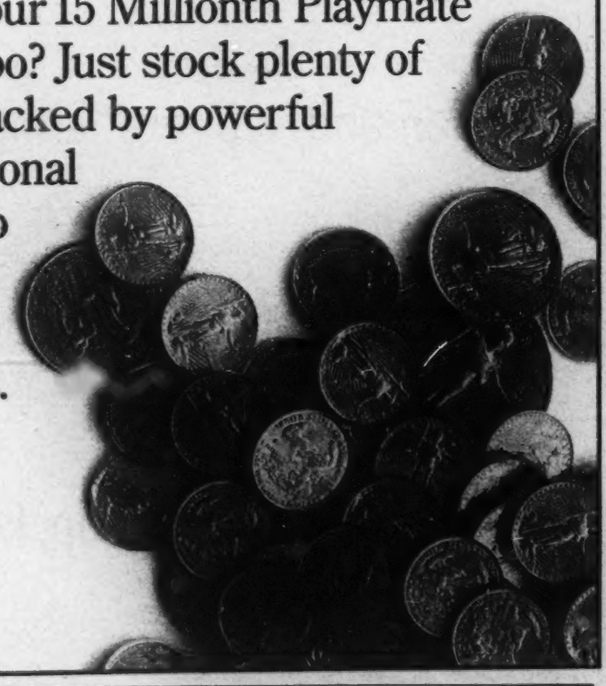

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Study: Hardware Holds Untapped Potential

(Continued from page 57)

Regionally, discount stores in the Midwest attracted the highest percentage of hardware shoppers. Nearly 70 percent of hardware purchasers who live in the Midwest bought some supplies at a discount store, compared to 58 percent in the South, 53 percent in the East and only 47 percent in the West.

The survey, conducted by Leo J. Shapiro & Associates, Chicago, also found that Midwest shoppers spent a higher percentage of their hardware dollars at discount stores. An average of 22 percent of their hardware purchases was made at discount stores. Shoppers in the South spent 17 percent of their hardware dollars at discount stores; in the West, 12 percent; and in the East, 10 percent.

When asked what discount stores could do to spur them to spend more money at that type of store, hardware customers listed "lower prices", "better quality," and "better variety" equally as the three major changes they would like to see.

Hardware customers noted that 'lower prices, better quality, and better variety' would be the three major changes that would spur them to spend more money in hardware departments.

Discount store hardware customers tend to be slightly younger and a bit more affluent than the overall survey respondents. They have a mean age of 39.1 years and a mean annual household income of $34,100. As could be expected, a high percentage of discount store hardware customers are male, 59.1 percent, higher than any other department in the store.

By comparing the demographic characteristics of hardware customers who expect to buy more from a discount store next year to those who plan to spend the same or less, it appears the prime prospects are younger, make less money, have more kids, tend to be white collar workers, and are more apt to be female than the ones who are not inclined to spend more.

Those inclined to increase spending average 36.5 years of age, compared to 40.7 years for the other group. Their average annual household income is $32,700 nearly $2,000 less than the average of those who don't expect to increase their spending in discount stores. Thirty-four and a half percent of the inclined to buy group have children, vs. 29.3 percent of those not inclined to buy; and 62.7 percent of the chief breadwinners of the buying group are white collar workers vs. 53.5 percent of the non-buyers.

Significantly, 43.2 percent of the hardware customers who are likely to spend more at a discount store next year are female, compared to 40.9 percent of the customers who expect to spend the same or less.

Despite the modest growth potential foreseen in the study, few discounters are attempting to capitalize on hardware in a big way.

In rating hardware against all other departments of the store, the study shows that the discount industry's three largest chains have failed to impress customers with their hardware offerings.

At Wal-Mart, customers gave hardware supplies a rating of 100, equal to the average rating of all departments in the store. At K mart, hardware garnered a 97 rating, slightly less than the average of all 15 departments surveyed. And, at Target, hardware captured a rating of only 63, suggesting a much poorer departmental performance than other merchandise categories.

SPARC Banquet to Honor Top Discounter, Vendors

(Continued from page 57)

In addition to the 20 vendor awards by retail category, a special "Vendor of the Year" award will be presented to Dan Ferguson, vice chairman and ceo of Newell Cos. The multi-product line vendor was selected by a committee of discount retailers as the supplier that best demonstrated all the attributes that contribute to the success of its customers.

The SPARC Awards Committee is chaired by Gene O'Donnell, senior vp and general merchandise manager, Hills Department Stores. The committee is composed of:

- Carl Schwartz, gmm, hard lines vp, Fishers Big Wheel;
- Mary Schwartz, vp, gmm, soft lines, domestics, Consolidated Stores;
- Warren Feldberg, exec vp, merchandising, Target;
- Dave Dibble, senior vp, gmm, Wal-Mart;
- William Rokoff, vp, gmm, soft lines, jewelry, shoes and domestics, Makro;
- Tom Kiley, senior vp, gmm, hard lines, Jamesway;
- Les Dietzman, exec vp, merchandising, Ames;
- Richard Hersh, president, International Mass Retail Association.

ABC News sports correspondent Dick Schaap will be guest speaker at the dinner, which is sponsored by *DSN*.

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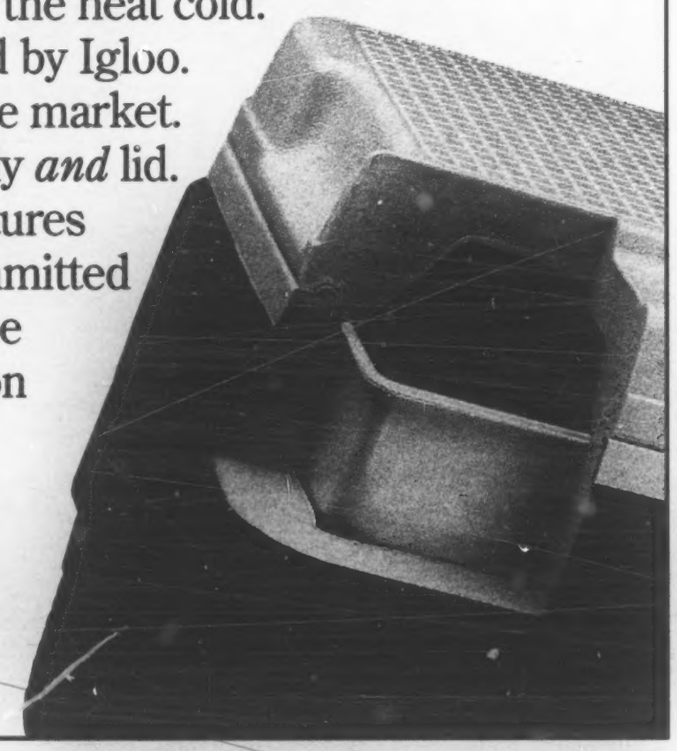

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BJ's Plans Expansion To Secure Stronghold in Northeast

(Continued from page 1)
five stores should raise the chain's Northeast count to 21.

The expansion denotes the strong commitment being made to the wholesale club by Waban Inc., the firm that was spun off from Zayre Inc. in June to become the parent of two membership warehouse formats, BJ's and HomeClub, a home center chain.

Waban's backing for BJ's reflects the membership warehouse's improved performance over the past two years, when the number of units reached the critical mass to reportedly become profitable on an operational basis. Waban's spin-off from Zayre and its support for BJ's should put to rest trade reports, never confirmed, that the membership warehouse was a potential takeover candidate.

While Zayre and Waban haven't broken out BJ's financial performance, the chain's sales are estimated to have jumped about 42 percent from about $575 million in 1987 to approximately $820 million last year. At the same time a $4 million operational loss was turned into about an $11 million operational profit in 1988.

The operational profit turnaround reflected the higher volume being generated by the average BJ's. That figure went from $34.8 million to $38.8 million last year, Jack D. Seibald, a Salomon Bros. security analyst estimated in his initial report on Waban. BJ's sales per average store, he estimated, lagged behind two of its key Northeast competitors, Price Club at $113.1 million and Sam's Wholesale Club at $41.7 million. BJ's was just ahead of another competitor, PACE, at $37.2 million.

Waban is acting to enhance BJ's presence in the New England/Middle Atlantic states area—where the chain has 16 of its current 22 stores—as Sam's prepares to invade the Northeast this fall with its first two units. The duo set for New Jersey will be the kickoff for at least a 21-store Sam's thrust by the end of 1991 that is part of that wholesale club's plan to become the first national membership warehouse (see *DSN*, July 3, page 1).

PACE, meanwhile, this fall will open two stores in Philadelphia as it presses deeper into the Northeast from the Baltimore/Washington area where it already has three units, with more due. Price Club and Makro also plan to augment their presence in the Northeast with at least one and three units, respectively. Those moves will give Price Club and Makro at least four stores each in the region, with more to come. Rapid growth in the Northeast is in the works for both chains.

While other wholesale clubs are acting to establish a base in the Northeast, BJ's expansion is designed to buttress the critical mass it has started to establish in eight of the 10 states in the region.

The BJ's in North Dartmouth, a suburb of New Bedford, will give the chain five stores in Massachusetts, while the Milford and Bedford units will boost the chain's count to two each in Connecticut and New Hampshire. The Edison and Ocean Township stores will give BJ's four in New Jersey.

In Florida, the Sunrise unit will raise BJ's count to three in the Greater Miami/Fort Lauderdale market.

BJ's and the four other membership warehouses project opening a total of at least 33 stores in the Northeast by 1991. That mass of units will result in highly competitive situations in several markets.

The Greater Philadelphia area, for example, is set to become a major wholesale club battleground. As PACE opens there, it will find a Makro in the suburb of Langhorne, Pa., and BJ's with a unit in Philadelphia and another in nearby Maple Shade, N.J. And, Sam's plans to open three in Philadelphia by 1991.

BJ's proposed Edison, N.J., unit will go up against a Price Club there.

BJ's current stores face competition from future Sam's units in Albany and Rochester, N.Y., and Wilmington, Del., and from Makro's planned Hartford, Conn., unit.

Overall, BJ's projected 21 Northeast stores will be matched by Sam's, which plans to open the same number in the region by 1991.

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David Glass mounts donkey at Harrison, Ark., store, 25 years after visiting Wal-Mart for first time. (DSN photo)

Ark. Unit Celebrates 25 Years

Glass Takes Donkey Ride Down Old Memory Lane

By Don Longo

HARRISON, Ark. — It took 25 years, but on a hot, muggy day here this month Wal-Mart president David Glass finally had to eat some disparaging remarks he made when the chain opened its second store, in this small Ozark Mountain town.

Longtime associates like Charlie Cates, the original store manager, and 20-year-plus employees Grace McCutcheon and Veena Biggs—not to mention chairman Sam Walton—cheered as Glass showed he could be as good a sport as anyone.

> ***'This store was the catalyst. The company would not be where it is today if not for the success of this store.'***

At a ceremony marking the 25th anniversary of a store that helped pave the way for the phenomenal success of the Wal-Mart retail chain, store manager Bill Lovell read from a *Fortune* magazine article (Jan. 30, 1989) that quoted Glass' first impressions of Wal-Mart and its founder:

"In 1962 Walton opened the first Wal-Mart in Rogers, Ark., near Bentonville. Meanwhile, in Missouri, David Glass, head of a successful drug retailing chain, heard about Sam and came to the grand opening of the second Wal-Mart, in Harrison, Ark. 'It was the worst retail store I had ever seen,' recalled Glass. 'Sam brought a few watermelon trucks in and stacked them on the sidewalk. He had donkey rides in the parking lot. It was 115 degrees, and the watermelons began to pop, and the donkeys began to do what donkeys do, and it all mixed together and ran all over the parking lot. And

(Continued on page 10)

Ames Deals Variety Div. To McCrory for $80M

Retailer to Focus Efforts on Discount Department Stores

By Pete Hisey

ROCKY HILL, Conn. — As expected, Ames Department Stores has sold its G.C. Murphy variety store division to McCrory parent E-II Holdings Inc. Ames originally acquired 263 variety stores, along with 118 Murphy's Mart discount stores, in 1985 in a $205 million takeover.

The current 130 Murphy stores, along with 25 Bargain World units, which reported sales of approximately $175 million last year, were sold for $80 million. "We were very happy with the price," said Ames spokesman Bill Roberts.

President and ceo Peter Hollis explained the deal by saying that "the Zayre acquisition has positioned us to achieve long-term growth in general merchandise retailing, which will continue to be the primary focus of our growth and investment."

Variety stores, although profitable and at one time a significant part of Ames' business, were a drain on the work force and did not fit in with the firm's long-term plans, he said.

The proceeds of the sale will be used to retire long-term debt, Hollis said. After applying the after-tax total to debt, the company will have reduced long-term debt related to the Zayre acquisition from $425 million to approximately $235 million in less than a year.

The Ames/McCrory Deal

Sold to McCrory Parent E-II Holdings:
130 G.C. Murphy Stores
25 Bargain World Stores

Cash to Ames: $80 Million
To help pay down debt from Zayre acquisition

New Ames Store Counts:
691 Full-line Ames & Zayre discount dept. stores
17 Crafts & More Stores
5 Office Shop Warehouses

Source: DSN *research*

Hollis had mentioned that Murphy might be for sale at the annual shareholders meeting in June, but added that Ames required fair value. In addition, he said at that time that a major

(Continued on page 57)

Food Wholesaler Strikes Back at Clubs

Southwestern Convenience Club Offers Food for Thought

By Arthur Markowitz

CITY OF COMMERCE, Calif. — Food wholesalers have begun to strike back at their main competitors, membership warehouses.

Certified Grocers of California Ltd. (Cergro) at presstime had opened a food wholesale club called Convenience Club in Phoenix, Ariz., and is set to launch another food club in Long Beach, Calif., early next month.

Other grocery wholesalers have expressed interest in Cergro's move.

Cergro's concept could develop into a challenge to membership warehouses' food business in much the same way that discount office supply stores have cut into the industry's office supply and furniture business.

The Convenience Clubs are designed to win back convenience stores, supermarkets, restaurants and similar businesses that have turned to membership warehouses for either core groceries, H&BA and general merchandise, or for fill-in goods.

The two stores are modeled on wholesale clubs, using the same warehouse fixturing and operating techniques. Membership fees are $15 for the first business card and $5 each for two additional cards. Blue star cards for consumers also cost $15.

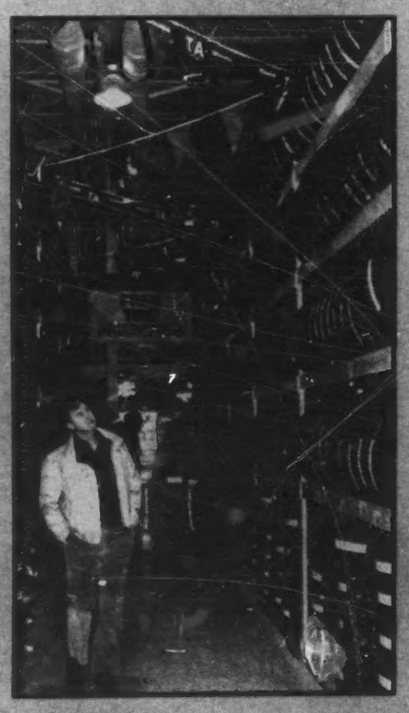
The two stores' first year sales were projected at $105 million by Jerry Friedler, Cergro president.

(Continued on page 57)

Tire Dealers Face Inflated Competition

With imposing racks of mostly brand name tires, wholesale clubs, hypermarkets and auto parts warehouses are poised to snare a larger share of sales in a relatively flat replacement tire market. Independent dealers are also cautiously watching Sears, which gained market clout when it bought Western Auto, along with its Tire America and NTW tire subsidiaries.

See story, page 47.



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MARKETWATCH

Johnson Back at Wal-Mart to Assist Sam's

BENTONVILLE, Ark. — A.L. Johnson has returned to Wal-Mart as vice chairman to work with the retailer's Sam's Wholesale Club division. Earlier this year, Johnson retired after 15 years with Wal-Mart. Prior to his retirement, he had been vice chairman in charge of Sam's, Hypermart USA and specialty divisions.

K mart Plans First Virgin Island Store

TROY, Mich. — K mart will open its first Virgin Islands store in the fall of 1990. The 86,479-square-foot store will be located on St. Thomas. "St. Thomas is the fastest growing area in the Caribbean," said Robert C. McAllister, K mart's vp, Southern region. The store will serve approximately 60,000 people, many of whom have had to fly to Florida or Puerto Rico to shop, he said.

Office Depot Stock Sale Raises $41.4M

BOCA RATON, Fla. — Office Depot has raised $41.4 million from the sale of 1.8 million shares at $23 per share to Carrefour, the French hypermarket chain. In an unrelated deal, investors that helped finance Office Depot's start-up recently sold just under 2 million shares at $21.75 per share, netting $40.7 million. Funds from the Carrefour deal will be used for Office Depot's expansion. Carrefour now has interest in three American retailers, its Carrefour hypermarket in Philadelphia and holdings in Office Depot and Costco Wholesale Club.

2 Single-Store Wholesale Club Ventures Fail

MONTGOMERYVILLE, Pa. — The membership warehouse concept hasn't been receptive to single-store operations. Two-year-old Net Cost Club closed its store in the Philadelphia suburb of Montgomeryville, citing the retirement of owner Alfred Hoffman as the reason. Its competitors in the Philadelphia market included two BJ's Wholesale Clubs and one Makro. In Sacramento, Calif., Price-Rite closed its store after failing to obtain capital for its planned expansion of at least two more units. The store, opened in March 1988, combined the concept of deep discount drug retailing with a wholesale club format.

Vermont American Rejects Newell Offer

LOUISVILLE, Ky. — Vermont American reported it has rejected a proposal from Newell Co. whereby Newell would obtain 20 percent to 25 percent interest in the company. Under the proposal, Newell would also gain board representation subject to a standstill agreement, with the goal of ultimately negotiating a merger between the two companies which would be "outside of [Vermont American's] current process," according to the Vermont statement. Robert Baker, president and ceo of Vermont, said that the board of directors decided to maintain its original stance of soliciting offers from all qualified prospective purchasers. ". . . Newell is invited to join that process on the same basis as all others," Baker said.

Off-Pricer Eyes Hooker Corp. Stores

NEW YORK — While Burlington Coat continues its efforts to acquire the assets of bankrupt Cohoes Specialty Stores for $4 million, Monroe Milstein, Burlington's president and chairman, is reportedly interested in acquiring Hooker Corp.'s retail holdings, including the Bonwit Teller and B. Altman Co. chains. Milstein would not disclose which Hooker divisions interest him the most, and he pointed out that interest in a deal is one-sided right now. Bonwit's and Altman's filed Chapter 11 petitions Aug. 9.

HQ Buys 4 WORKplace Units in Calif.

LONG BEACH, Calif. — HQ Office Supplies based here has agreed to purchase four Southern California WORKplace stores for approximately $8 million. The St. Petersburg, Fla.-based WORKplace entered the greater Los Angeles-area market last year, its first move outside its home state. The sale will reduce WORKplace's store count from seven to three, but company president Steve Westerfield said the chain is presently looking at some 20 new locations both in and outside of Florida. He said the sale of the Southern California locations will give WORKplace capital for part of this future expansion. HQ currently operates eight units in Southern California and Nevada, and expects to be operating 14 stores by year-end.

FOR THE RECORD

DSN incorrectly listed OfficeMax in the office supply megastore chart in the July 3 Annual Report issue. The company is headquartered in Solon, Ohio, a Cleveland suburb, and it was a start-up in 1988.

Spaulding Resigns as NHMA Head; Cites 'Management Differences'

CHICAGO — Jay Spaulding has resigned from his post as president and chief operating officer of the National Housewares Manufacturers Association. While there has been speculation that his exit was triggered by the low turnout at the NHMA's summer conventions, both Spaulding and the association stressed it was not a factor.

Kimberly Rawn, director of communications with the NHMA, said Spaulding's resignation was due to "management and philosophical differences," adding "there was a difference of opinion regarding program and direction."

A search committee for a new president was formed during the Aug. 11 board meeting, Rawn said. "It is business as usual here . . . The second show did not make or break the decision [to accept Spaulding's resignation.]"

Spaulding concurred, saying, "The NHMA board and I have had management and program differences which

Jay Spaulding

have strained our relationship and that have been difficult for both of us. My resignation has immediately resolved this situation."

Spaulding told *DSN* that he has, "just started to receive inquiries," for other positions. However, he would only say he plans to utilize his experiences with retailers, wholesalers and manufacturers in a "multi-dimensional" manner.

Spaulding joined the association when numerous competing housewares shows were emerging, including one headed by former NHMA president Ronald Fippinger. The competition was spawned by a change in show dates from a spring/fall schedule to the current winter/summer agenda.

Under Spaulding's direction numerous changes have taken place, including the elimination of a seniority system for manufacturers attending what was then a mandatory second show.

The NHMA's shows have been easier for buyers to cover now that each category is generally grouped together within a single building.

Spaulding also changed the research group employed to produce the annual housewares industry report to Touche Ross, leading to a more detailed analysis.

Under Spaulding's direction, the NHMA has deepened its commitment to overseas trade shows. He also helped develop a course of study with Ohio State University for the housewares industry.

Wal-Mart Eyes New Vendor Store

Targets Upscale Charlotte Mall for Second Unit

CHARLOTTE, N.C. — Wal-Mart is putting its second vendor store in a new shopping center, The Arboretum, being built next to a posh residential and golf complex here called Raintree Village.

Developers originally were negotiating to put in a Lord & Taylor store to anchor the 600,000-square-foot mall located in the most affluent section of south Charlotte on Highway 51. When the attempt fell through, the developers turned to Wal-Mart, much to the consternation of some residents who had been counting on a tony department store for their district, rather than discount city.

When completed, The Arboretum unit will join the first test vendor store that Wal-Mart opened in Janesville, Wis., in late June (see *DSN*, July 17, 1989, page 1).

The upscale approach Wal-Mart vendors took with the first unit can be expected to mollify community opinion.

The Arboretum also will include a supermarket, drug store, medical center and 300 apartments.

Although construction is in early stages, Wal-Mart said it will open the 114,760-square-foot store by year-end, along with a second Charlotte store also currently under construction, reported *The Charlotte Observer.*

A third new store in the Charlotte market will open in suburban Gastonia by Nov. 1, said M.S. Van Hecke, a busi-

(Continued on page 60)

Teleshopper HSN Plans to Appeal $100M Libel Damages Award to GTE

CLEARWATER, Fla. — Home Shopping Network plans to appeal the $100 million in libel damages awarded to GTE earlier this month after a six-week trial in which a jury rejected the teleshopper's contention that it lost hundreds of millions of dollars in sales because of poor service by the telecommunications company.

HSN was ordered to pay $20 million to GTE while its two top executives, chairman Roy Speer and president Lowell Paxson, were each required to pay $40 million.

HSN had sought $1.5 billion—$500 million for lost profits and $1 billion in punitive damages—from GTE in its suit heard in the Pinellas County Circuit Court here. The teleshopper claimed that GTE didn't provide adequate equipment to handle HSN's large volume of calls in 1986 and 1987 as it expanded its video retailing into 11 new markets.

HSN cited a report by AT&T, its long-distance carrier, as the basis for its charges against GTE. AT&T wasn't involved in the case.

GTE won on its countersuit

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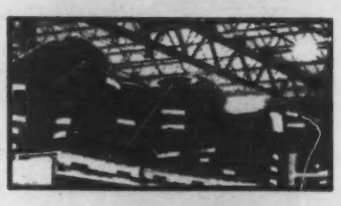

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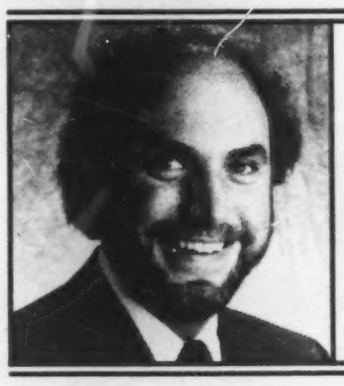
Listen and Learn From Your Customers

Although the methodology is different, most retailers solicit customer comments. The question is how many decision-makers actually review the comments? Or are they simply audited and filed by a trainee in the marketing department?

Last issue, I wrote about customer apathy. There's no doubt that most Americans want to shop away from home, but they are often discouraged and frustrated by poor service, lack of service, long lines, out-of-stocks, lack of new products, and so on.



TONY LISANTI
Editor

The time is right for all retailers to listen to their customers. Don't just pay lip service to their comments. Rather, review their suggestions with an open mind.

A few weeks ago, I received a four-page, hand-written letter from a concerned customer in Red Creek, New York. He had obtained a copy of *Discount Store News* from a friend who works for Stanley Tools. He said he had no direct contact in the discounting business, but he is a frequent shopper of discount stores. "As Joe Average consumer," he wrote, "may I make a few observations?"

Here are some of his candid comments.

"Shopping in a store should be a joyful experience. Not having the desired item, difficulty in locating items, non-caring personnel or no one present at all *screams* negative."

"All store personnel should be easily identified so customers can quickly ask their assistance."

"Waiting in long lines to give your hard-earned money to a cash register computer that takes too long to process is an insult to a concerned, busy customer."

"Sales are lost when clerks are eliminated."

"Catalog companies such as L.L. Bean sell high-priced merchandise to a well-heeled clientele. K mart and Wal-Mart should consider a selective type of mail order catalog for their customer base."

"Perhaps super stores could better handle products and people by a more distinct separation into a series of mini-stores all under one roof. Each store could better justify its space, personnel and inventory each day and hour."

"Why not have recorded voices making suggestions in each department? Could suggestions for related sales be put on packages or displays?"

"Skilled individuals must purchase the greatest volume of hardware, fixtures, cabinets, etc. Skilled individuals want special consideration—delivery, quality and price. They will always shop where they receive special attention."

Regardless how you may react to the above comments, listening to the customer is critical. It's a basic principle of any service industry. But it's often neglected.

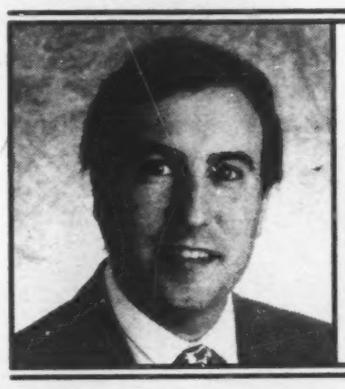
The customer is sending a message to retailers, and retailers must respond. The message is simple: Make the shopping experience an enjoyable experience.

BUYERS & SELLERS

Steinbrenner vs. Walton: Like Night and Day

Wal-Mart's ability to command news coverage on the front page of *Discount Store News* and in other major business publications rivals the attention Yankee baseball owner George Steinbrenner is able to grab on the sports pages of New York's daily newspapers.

The only difference is: Wal-Mart's news invariably concerns some positive accomplishment, such as opening the first truly American hypermarket, testing a revolutionary "vendor" store, expanding into major new markets like Chicago and central California, or reporting the type of sales and profits that have earned the discounter its recent designation by *DSN* as Retailer of the Decade.



DON LONGO
Exec Editor

Steinbrenner's notoriety usually comes from his foolhardy impetuousness, an ill-advised trade, second-guessing his manager, berating his players. His disdain for his employees and fans is well-documented.

In sharp contrast is Wal-Mart's attitude toward its employees and customers.

Walking through a crowd of associates at the 25th anniversary celebration of Wal-Mart's second discount store, located in Harrison, Ark., chairman Sam Walton asks: "Does everybody speak to our customers?"

"I wish seven or eight people would do that in every store. What do you think we could accomplish if everyone said, 'Good Morning,' to a customer. What would happen?"

Well, after the customer recovered from shock, she would probably buy something, and most likely, return another day to buy something again.

That attitude extends to its vendor relations, where Wal-Mart is sincerely trying to forge partnerships with its suppliers. That attitude also helps explain why Wal-Mart is a clear winner in the retail race. Meanwhile, the Yankees languish in sixth place, having lost more games than they've won.

DSN will devote even more space to Wal-Mart. In recognition of Wal-Mart's success throughout the decade, *DSN* will profile the discounter in a special commemorative issue to be published December 18. Watch for it.

WASHINGTON REPORT

Let's Help Congress Rewrite the Rules on RPM

What good is a discount store that can't discount? Not much good at all. Indeed, there isn't much point to an off-price retailer who is unable to offer savings to his customers.

Despite its apparent pointlessness, the "non-discounting discounter" may very well become the wave of the future.

A number of top federal antitrust policy makers believe that competition would increase and "consumer welfare" would be enhanced if manufacturers could prevent discounters from cutting prices. Unfortunately, the Supreme Court seems to have swallowed such thinking hook, line and sinker.

KEN RANKIN

A few years back, the Supreme Court established strict new standards of evidence which made it next to impossible to prove the existence of a resale price maintenance conspiracy.

In effect, the court held that a discounter victimized by such resale price fixing activities would have to produce direct and unambiguous evidence of an illegal conspiracy before a jury could even be asked to hear the case.

Then last year the court dropped the second shoe. In an even stranger RPM ruling, the Supreme Court concluded that a conspiracy to choke off sales to a discount retailer is not necessarily illegal resale price fixing. Unless the conspiracy is aimed at forcing retailers to sell at a specific price it's not RPM, the court said in BEC vs. Sharp.

The effect was to extend an open invitation for manufacturers to eliminate price competition at the retail level.

Fortunately, there are some people who recognize the dangers posed by these two Supreme Court resale price maintenance rulings. Indeed, the House of Representatives passed legislation last year that would have in effect reversed the high court's rulings. In addition to restoring the traditional rules of evidence in RPM cases, that legislation gave statutory weight to the long-standing policy of treating resale price fixing as an automatic or per se violation of the federal antitrust laws.

However, the Senate failed to approve companion legislation last year. Fortunately, Sen. Howard Metzenbaum, D-Ohio, has reintroduced that bill (S.865) this year.

It's time for the discount industry to start pushing for action on that bill. Without help from Congress, the "non-discounting discounter" could soon be a reality.

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APPAREL

WOMEN'S/MEN'S/CHILDREN'S/HOSIERY/JEWELRY & ACCESSORIES/UNDERWEAR/INTIMATE APPAREL

Jeans' Popularity Wearing Thin

But Discounters Find a Silver Lining

By Kenneth M. Chanko
Nationwide DSN Report

While jeans remain at the forefront of American consumers' wardrobes, there are signs that the overall popularity of the venerable sportswear staple is on the downhill side. Luckily for discounters, those consumers who still wear jeans often tend to be discount store shoppers.

According to a *DSN*-commissioned national survey of American consumers, more than one in three American adults—36 percent—is wearing jeans less often today than three years ago. Just 29 percent are wearing them more often and 28 percent have made no change in their jeans-wearing habits (7 percent didn't answer).

The news for discount department stores, however, is not so gloomy. Among consumers who said they plan to buy their next pair of jeans at discounters, 39 percent are wearing jeans more often today than three years ago; 30 percent have not changed their frequency of wearing jeans, and 28 percent are wearing them less frequently.

In contrast, among consumers who said they wouldn't buy jeans at a discounter, 37 percent are wearing them less often, 28 percent the same and 27 percent more often.

This means that there is a greater willingness to purchase jeans at discounters among the most important consumer group—that which is wearing jeans more often. The fact that discount stores are less likely to be considered as an outlet for jeans among consumers who are wearing them less frequently—even though it's a larger group of consumers—shouldn't be that troubling.

Additionally, consumers who said they would buy jeans at a discount store have bought 5.4 jeans, on average, in the past two years, compared with 4.7 pairs among those who would go to another outlet.

These findings are compiled from phone interviews conducted in June by Chicago-based Leo J. Shapiro and Associates, with a national sample of 450 households, alternating between the man and woman of the home.

The survey also revealed that jeans manufacturers are losing women as a consumer group rather than men. Seventy-two percent of the men said they are wearing jeans either more frequently or as frequently as they did three years ago, while just 44 percent of the women answered the same way. Almost half the women—48 percent—said they are wearing jeans less frequently.

Two in three consumers have purchased an average of five pairs of jeans for themselves in the past two years, while two in five said they "definitely" will purchase a pair of jeans over the next 12 months; 26 percent said "maybe" and 25 percent said "definitely not."

Yet, once again, discounters were higher on the list of the consumer group that answered "definitely." Among consumers who would buy their next pair of jeans at a discounter, 50 percent said they would "definitely" be purchasing a pair within the next 12 months. By contrast, among consumers who said they would not buy their next pair of jeans at a discounter, just 43 percent said they would "definitely" buy a new pair in the next year.

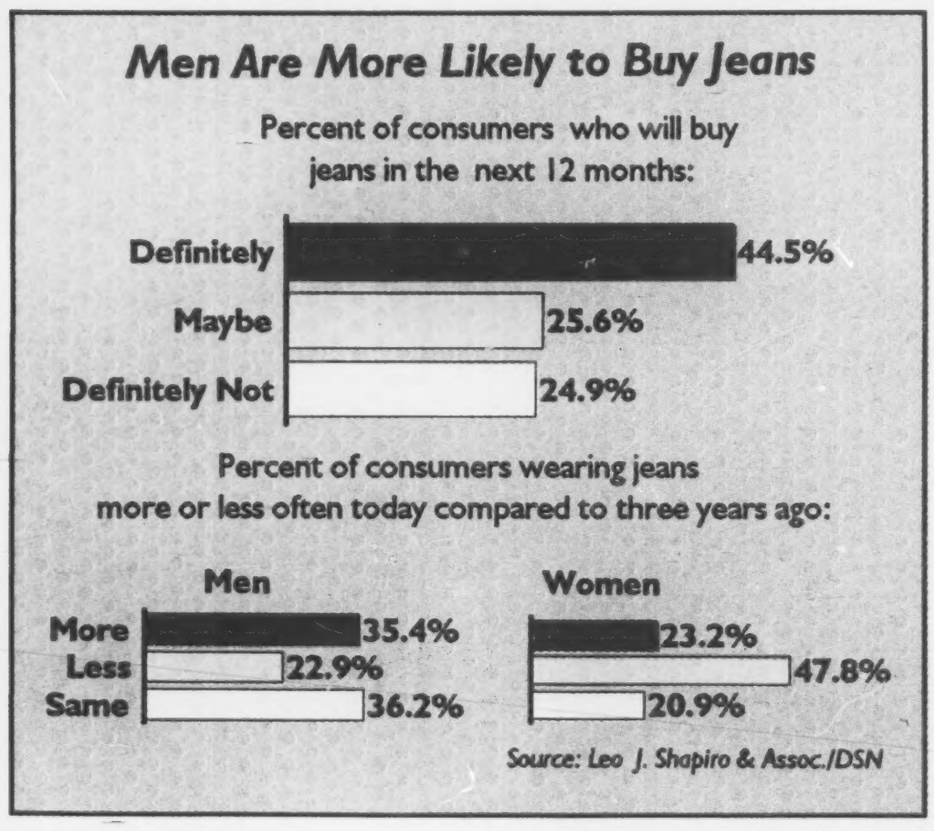
Not surprisingly, the survey revealed that the majority of jeans wearers are "baby boomers" or younger, and that the 45-year-old and older age group is wearing jeans less frequently today compared to three years ago than the under-45 group.

However, survey results indicate that the jeans market may be expanding as the jeans wearer ages. Fourty-four percent of adults age 45 and over have purchased an average of 4.4 pairs of jeans for themselves in the past two years. That isn't a great deal lower than the 5.1 pairs purchased by the under-45 set.

While there is some overall slippage in potential future demand for jeans, discount stores are as top-of-mind as any other outlet as far as con-

(Continued on page 20)

Jeans at Hypermart USA, Dallas: The market for jeans has matured, but a larger percentage of shoppers are looking for the basic commodity at discount stores. (DSN photo)



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MARKETWATCH

New Private Label Show Producer

NEW YORK — David Cheifetz, president of Conference Management Corp. (CMC), has reached an agreement with Schimel Co. to take over operation of Private Label Expo. According to Daniel Capozziello, CMC's newly appointed director for Private Label Expo, the next show will be held at the New York Hilton from May 22 to 24, 1990. There is no Private Label Expo scheduled for 1989; the show debuted in the spring of 1988 at the Jacob Javits Center. Private Label Expo has been managed by Schimel Co., producers of NAMSB. CMC, which is based in Norwalk, Conn., produces Fashion Accessories Expo. The last show—featuring manufacturers displaying men's, women's and children's apparel, as well as fabrics—attracted 6,000 buyers and 400 international resources.

Licensing Pacts Inked For Movie Classics

ATLANTA — Two 50-year-old movies — "The Wizard of Oz" and "Gone With the Wind" — are finally getting the licensing treatment. In the case of Oz, Wendy Gell Jewelry and Turner Home Entertainment (T.H.E.) have signed a deal that will have Gell using characters and images from the 1939 children's classic to animate jewelry, scarves, gloves and other accessories. The upscale pieces will range from $60 to $7,000, but a similar line of less expensive, gold-plated jewelry will carry $20 to $30 price points. As for "Gone With the Wind," T.H.E. has signed on Creative Fragrances, which will introduce its new women's fragrance, "Miss Scarlett's Gone With the Wind." Artist LeRoy Neiman has been commissioned to create an original painting commemorating the 50th anniversary of the film epic, and the artwork will be used for the print ad campaign.

Licensing Stays Hot

NEW YORK — The Gitano Group has reached a licensing agreement with the Lori Corp., a subsidiary of the Artra group, to produce a complete collection of costume jewelry for women under the Gitano label. The collection, which will consist of earrings, bracelets, necklaces, pins and other accessories, is scheduled for spring 1990 delivery . . . Airway Industries is the new Brittania Sportswear Ltd. licensee for soft-sided luggage, tote bags and business cases under the Brittania, Brittgear and Brittsport labels. Product will be shipped to retailers for fall 1989 . . . Reed st. James has reached a licensing agreement with Tandy Brands Accessories to market a complete line of leather goods accessories and men's jewelry items, including belts and wallets, for fall delivery.

APPAREL

Consumers' Enthusiasm for Blue Jeans Cools Off

(Continued from page 19)
sumers are concerned. When asked where they would go if they wanted to buy a new pair of jeans for themselves, 21 percent of American adults said they would go to a discount department store; 22 percent said a specialty clothing store, 19 percent said a national merchandiser (Sears, Penney and Ward) and 20 percent of the respondents said a traditional department store.

However, the discount store (25 percent)—and the mass merchandiser (25 percent)—comes to mind more often than the department store (15 percent) or the specialty apparel store (15 percent) when it comes to buying jeans for children.

Yet parents are less likely to be buying jeans for their children than themselves over the next 12 months, according to the survey.

When asked "what are the chances that you may be buying jeans for a child in the coming 12 months?" only 35 percent said "definitely," while 45 percent said "definitely" when asked about buying jeans for themselves.

Further breaking out the responses to "which store would you be most likely to go to if you were going to buy some jeans for yourself?" 8.7 percent named K mart. Sears, named by 9.9 percent, was the only chain to top K mart. JCPenney got 6.8 percent of the responses, and The Gap edged out Wal-Mart, 4.5 percent to 4.1 percent.

Of those who said they would buy their next pair of jeans at a discounter, K mart—42.2 percent—was named by more than double the number of people who named Wal-Mart—19.8 percent. Next was Target at 7.1 percent, followed by Hills at 3.8 percent.

The Power of Brands

The power of brands remains very strong in this category. When asked if "you have a specific brand in mind that you would want?" almost three in four—71 percent—said "yes."

Of that group, Levi's (34.2 percent) was named by almost triple the number of those who named Lee (11.6 percent), the second most popular jeans brand. Going down the brand preference list—Wrangler (9.1), Guess? (3.9), Jordache (3.2), Chic (2.5), Gitano (2.0), Calvin Klein (1.9), Sears Brand/Toughskins (1.3) and Rustler (1.3).

Among those who would buy their jeans at a discounter, however, Levi's isn't as popular (29.4 percent), though it's still the No. 1 choice. Wrangler (18.4) skyrockets beyond Lee (14.8), and Chic (6.3), Rustler (5.3) and Gitano (3.5) increase as well. Guess? and Calvin, of course, aren't even considered among the discount store shopping set, and Jordache (1.1) by hardly anyone.

Adults are far less brand-conscious when it comes to buying jeans for their children, however. Only slightly more than half (56 percent) said they had a particular brand in mind when shopping for jeans for a child under 14. The brand rankings among those who also would shop at a discounter are—Levi's (22.3 percent), Lee (13.0), Wrangler (10.1) and Rustler (2.5).

As to price and style, the traditional view of the discount shopper expecting to pay less and wanting less fashion is reinforced by the survey's findings. Also not surprisingly, the under-45 woman is the most fashion-conscious customer.

While $24.80 is the average price respondents said they "would expect to pay to get the jeans that you want," the consumer group that said it would buy the jeans at a discounter expects to pay just $19.20, on average.

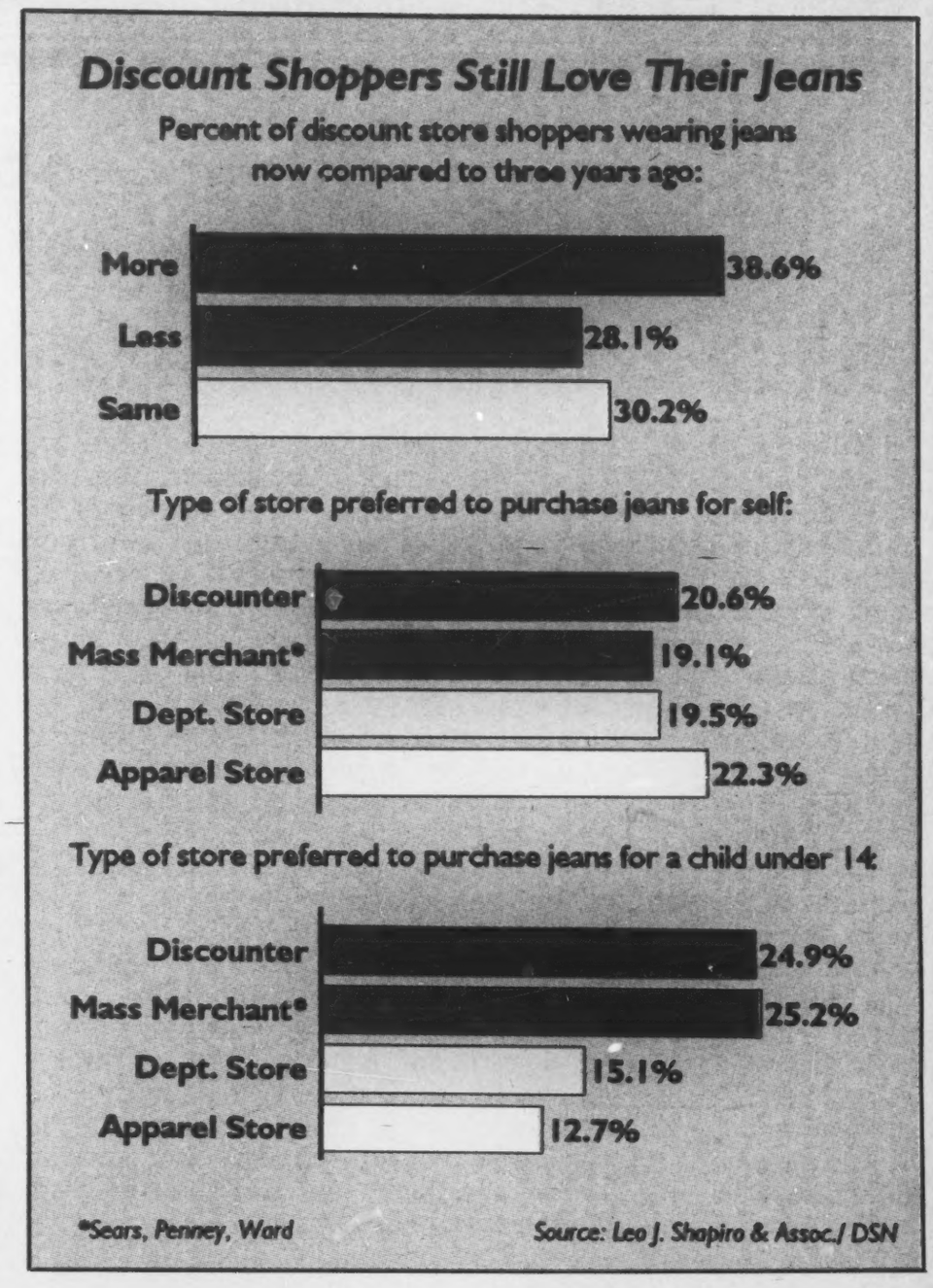
Also, not surprisingly, among consumers shopping at all outlets, women expect to pay more ($26.80) than men ($22.90), on average, and the under-45 set expects to pay more ($26.40) than the over-45 group ($22.20).

When it comes to washings and finishings, discount store shoppers want "regular denim" (63 percent) over "prewashed jeans" (35 percent) by almost three to one. This contrasts sharply with those who said they would not shop at a discounter—those actually favored prewashed (45 percent) over regular (44 percent).

However, among shoppers of all outlets, more than half (52.5) of those under 45 wanted prewashed, and almost half (49.4) of all women wanted prewashed.

One in three discount store shoppers said they would want a "faded" or "stonewashed" look to their jeans. Interestingly, the difference between discount store shoppers and non-discount store shoppers wanting or not wanting a faded look was less pronounced than when it came to regular or washed. More than half (51.2 percent) of those who said they would not shop at a discounter also preferred no faded or stonewashed look.

Again, slightly more than half of the under-45 set said they did want a faded or stonewashed look, and more women than men (43 percent vs. 34 percent) wanted the faded look.



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Clubs, Sears Inflate Tire Market

Warehouse Clubs Make Inroads As Full-Liners Lessen Commitment

By Richard C. Halverson
Nationwide DSN Report

As more and more full-line discounters and mass merchants, including Target, Venture, Zayre and JCPenney, got out of the auto service business, and K mart continued to close auto centers—the estimated discounter and mass merchant share of the tire replacement market slipped in 1986 to 20 percent from 21 percent in 1985 and 1984 and 22 percent in 1983.

But, thanks to the growth in wholesale clubs, the market share for the mass market category crept back to 21 percent in 1987 and 1988 and possibly will gain another point in 1989 to 22 percent, estimates *Modern Tire Dealer*, the Akron, Ohio-based trade publication.

Indicating the growing importance of warehouse clubs, Price Club now commands the largest share of the Los Angeles tire replacement market, the *Los Angeles Times* estimated in a market survey. The Price Club share for the first half of 1988 was 9.2 percent, up from 7.8 percent in 1987 and 3.7 percent in 1985. In the market study, Goodyear stores came in second at 8.5 percent, also up from 7.8 percent in 1987 but only 1.1 percentage points up from 7.4 percent in 1985.

By the end of the year, some 378 warehouse clubs will be operating, *DSN* projected in its 1989 census issue July 3, 1989, compared with 316 on January 1. Sam's Wholesale Club will account for the largest number, 125, with Costco trailing at 62 units.

More than wholesale clubs, however, independent dealers are worried about the new market clout that Sears gained when it bought Western Auto, along with its Tire America and NTW tire company subsidiaries, said Robert Ulrich, senior editor for *MTD*.

Sears now may control 12 percent to 14 percent of the market, Ulrich estimated, up from about 7.5 percent prior to the acquisition.

Warehouse clubs appear to be taking market share from full-line discounters rather than independent tire dealers, said Tony Hylton, communications director for the National Tire Dealers and Retreaders Association, a trade organization that represents independents.

"Everybody's a discounter in the tire business," Ulrich said. "Tires are like a commodity now."

"There is no more list price. You're crazy to publish list prices now," Ulrich said.

Tire merchandisers are slugging it out for a replacement tire market that grew only 2.2 percent in 1988, with customers buying fewer tires per transaction.

Including 39 million imported tires, industry shipments totaled 155.3 million in 1988, *MTD* reported, compared to 151.9 million in 1987. Retail prices averaged $51.80 in 1988 and the average number of tires per sale was 1.1, down from 1.9 in the late 1970s.

Estimated Share of Passenger Tire Replacement Market

Outlet	1988	1987	1986	1985	1984	1983
Tire Dealers	56%	56%	56%	55%	55%	54%
Discount Stores, Mass Merchants[1]	17	17	17	21	21	22
Warehouse Clubs[2]	4	4	3	NA	NA	NA
Tire Company Stores	12	11	11	10	10	10
Service Stations	7	8	8	9	9	9
Auto Dealers	2	2	2	2	2	2
Miscellaneous	2	2	2	2	2	2

NA—not available
[1] *Includes Sears and Montgomery Ward.*
[2] *Until 1986, warehouse clubs were included in discount store category.*
Source: Modern Tire Dealer

A Tire America by Sears test automotives store in Richmond, Va.: Through its acquisition of Western Auto, along with its Tire America and NTW subsidiaries, Sears is in a position to double its share of the replacement tire market to an estimated 14 percent from an estimated 7.5 percent. (DSN photo)

Longer-lasting radials account for the decline in the number of tires per sale, Ulrich said.

Countering those dismal trends, the market share for high performance tires—with higher price tags—is growing rapidly. Performance tires will account for 30 percent of replacements in 1990, *MTD* projected, compared to 25 percent in 1988 and 17 percent in 1986.

Another trend is toward branded tires, although private labels still accounted for 40 percent of shipments in 1988, Ulrich said.

Montgomery Ward led the way three years ago when the mass merchant started carrying about eight national tire brands, along with its private label offerings.

Pep Boys—Manny, Moe & Jack, for example, switched last year from exclusive reliance on its Cornell private la-

(Continued on page 55)

MARKETWATCH

Auto Warehouse Club To Debut in October

SAN DIEGO — A second automotive parts warehouse club chain is in the works. Auto Parts Club expects to open the first of two 40,000-square-foot San Diego units in October. The new chain expects to open 15 to 25 units over the next three years on the West Coast and in Arizona. Annual membership fees will be $35 for businesses and $25 for qualified group members. President of the new concern is John Carlson, while Robert Ames will handle marketing. Auto Club said that the venture capital it raised through Equity Investors, San Jose, Calif., will enable to launch operations debt fee.

Previously, Robert McNulty, founder of the HomeClub home center chain and the now-defunct All American SportsClub chain, raised $27 million through a public stock offering to launch a chain of 50,000-square-foot auto parts warehouse clubs to be called Auto Giant.

1990 Home Center Show Expands

CHICAGO — The 1990 National Home Center Show will be bigger but half a day shorter, running from March 11 to 13. To accommodate vendors on the waiting list for last year's show, show management is opening a fourth level, the lower level of McCormick Place North, as well the upper level, North, and both levels of McCormick Place East. The 1990 show will be the 15th annual event. To make it easier to work the show, the board of directors has decided to categorize the show, lumping, say, all paint vendors in the same building, on the same level.

Sporting Goods Apparel Sales Dip

NORTH PALM BEACH, Fla. — Unit sales of sporting goods apparel slipped 1.7 percent to 77 million pieces in the first four months of 1989, but dollar volume rose 8.6 percent to $6.3 billion, compared to the same span of 1988. The Sporting Goods Manufacturers Association said results of its apparel market index reflects in particular soft sales of ladies fleece as consumers resisted attempts to pass along higher raw material costs. The women's market was flat, although dollar volume rose 14.3 percent. Discount stores captured 24.9 percent of the sports apparel market, determined the study conducted by KSA/NPD for the SGMA. The study also determined that one in every five dollars women spend on sports apparel is for garments actually used in active sports, rather than for apparel for casual and fashion wear.

BTS Show Dates Set

NEW YORK — Next year's eighth annual National Back-To-School Merchandise Show will be held Feb. 10 to 12 in the Jacob Javits Convention Center, announced show sponsor Thalheim Expositions. The show is the only one in the United States devoted to the back-to-school market for office, stationery and home office supplies.

Nichols Sells Division

NEW YORK — S.E. Nichols has completed its previously announced sale of its F.R. Schreiber wholesale division to an investor group, including management. Nichols received $19.7 million, $17.7 million cash and $2 million in notes. Nichols retains a 10 percent equity interest in Schreiber.

Clubs, Sears Grab Larger Share of Tire Market

(Continued from page 47)
bel and now carries high performance tires in a variety of national brands such as Bridgestone.

Western Auto, following its acquisition of Tire America in 1987, started a program of national brands, including Michelin and Goodyear.

In line with its new thrust into brand merchandise and lower everyday prices, Sears is experimenting with three different auto center concepts, each involving a range of branded tires at sharp prices. In addition, it slashed the price of its private label Road Handler tires to make them more price competitive with independent dealers.

As indicated by test stores in Richmond, Va., Sears appears determined to make tires one of its "power formats." Capitalizing on the tire expertise gained by acquiring Western Auto and its Tire America subsidiary, Sears has converted auto centers in its four Richmond stores to a format it calls Tire America by Sears that focuses on tires and tire-related services, such as front-end alignment and shocks. (See *DSN*, March 20, 1989, page 47.)

At those centers, customers can buy either off the floor or through special order virtually every tire produced in the free world, including Michelin, Pirelli, Goodyear, Bridgestone (a Japanese make), Yokohama, and even Fulda, made in West Germany.

In other test auto centers in Milwaukee, Sears also is emphasizing branded tires and tire related services. Even conventional Sears auto centers have started to carry Pirelli brand tires.

In a late development, Sears is installing Tire Match machines from Assix, Tampa, Fla., in all of its 824 auto service centers. In a step beyond electronic spin balance, Test Match promises through a computerized program to match each tire against the other four, shaving off minute bits of rubber to make sure they do.

The service, which will cost $4 at Sears, in addition to the normal $6 to $7.50 charge for balancing, promises extra profits in tire service.

Western Auto and Pep Boys are other service-oriented automotive specialty chains using Tire Match, Assix said.

Road hazard warranties are another way discounters are attempting to increase profits in the hotly competitive tire replacement market.

Tires at The Wholesale Club, Indianapolis: The proliferation of warehouse clubs has helped the discount store/mass merchant category increase market share in tire sales. (DSN photo)

The Sam's Wholesale Club in Louisville, Ky., for example, offers road hazard warranty for $3 per tire, in addition to $3 per tire for balancing. Installation and valve stems are free. It offers Bridgestone, Michelin and General Tire brands.

At the Stone Mountain (Atlanta) K mart, road hazard warranty can bring in extra revenue of $3.50 to $5.50 per tire, in addition to the $6 per tire for balancing. Customers can chose between Bridgestone, Uniroyal and Mohawk national brands.

At American Fare, K mart's hypermarket in Stone Mountain, customers also can choose from top quality brands, such as Michelin and Bridgestone and secondary brands such as Mohawk, Strato-Flite and Frontier-Golden Jet. While American Fare offers no tire service, tire customers can take their purchases to a K mart for free mounting and purchase tire balancing and road hazard warranties at the same prices that K mart customers pay.

At American Fare, everyday tire prices run about $10 less per tire than at K mart, an automotive representative said, while prices are about the same when K mart puts tires on sale.

At Wal-Mart's Hypermart USA in Arlington, Texas, customers can choose from B.F. Goodrich, Michelin and Yokohama brands and get balancing and road hazard warranties for the same price Sam's charges, $3 and $3.

As for price comparisons with a Wal-Mart store, a Hypermart USA tire service rep said, "I know I'm cheaper than Wal-Mart. But they don't carry the same brands of tires."

In the Dallas market, Wal-Mart carries General Tires, the service rep said.

Last December Ames became the latest discounter to abandon the tire replacement market. Ames offered no tire service until it acquired last October the Zayre chain, which operated tire specialty service at 88 of its 388 stores.

In 1987, Zayre had given up on comprehensive auto service and converted auto centers in 105 stores to specialty tire centers called Tire Slashers. But Ames closed the remaining Tire Slasher centers just two months after acquiring Zayre.

And, K mart and Wal-Mart are taking a selective approach to auto service and tires.

For the past four years, K mart has been selectively closing auto service centers that fail to meet profit expectations. Only an estimated 1,200 K marts out of 2,200 now handle tires and the number continues to dwindle. That compares with about 1,600 four years ago.

And, Wal-Mart offers auto service only in about 275 stores out of more than 1,246. In its new store in Louisville, opposite the Jefferson Mall, for example, Wal-Mart offers no auto or tire service. A Firestone tire store sits alongside.

When ShopKo opened its new Twin Valu hypermarket in Cleveland this spring, it skipped tires entirely. And the Carrefour hypermarket in Philadelphia has reduced sharply the floor space devoted to tires and primarily offers only Michelin brand products.

Sears Unloads Eva Gabor Wig Subsidiary

CHICAGO — Sears, Roebuck & Co. has sold the Eva Gabor International wig distributing company it had acquired in April 1988 as part of its Western Auto acquisition. Purchaser for $19.6 million is the BN Capital Corp., which specializes in leveraged buyouts. Gabor executives also got a piece of the company. Sears retains other Western Auto subsidiaries, the Tire America and National Tire Wholesale chains.

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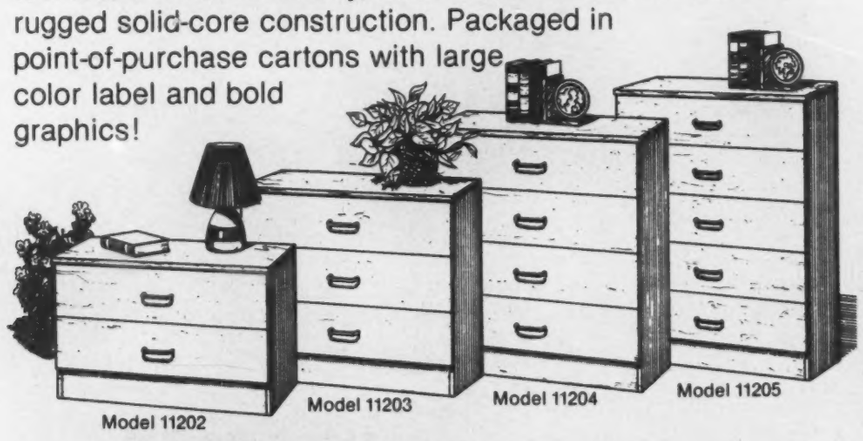

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Calif. Food Wholesaler Strikes Back at Warehouse Clubs

(Continued from page 1)

Dave Fitton, president of Cergro's Service Group, said the Convenience Clubs would regain the wholesale business lost to membership warehouses by giving members a greater assortment of merchandise plus conveniences and services that aren't provided by wholesale clubs.

Besides walk-in cash and carry sales, the Convenience Clubs, unlike membership warehouses, will deliver, charging for the service. Business members will be processed at special checkouts and their parking area will be next to the store, eliminating the need to carry orders to a vehicle parked far away.

Both units will feature an extended frozen food and dry grocery assortment, augmented by selected H&BA, stationery and general merchandise sold by independent grocery stores and/or used by restaurants, commissaries and other food service businesses. They won't merchandise non-food items like toys and auto accessories or high-end goods like consumer electronics that wholesale clubs use to attract consumers.

The Clubs will carry 5,000 to 7,000 sku's, compared to the 800 food sku's found in most membership warehouses. The Phoenix store is 36,000 square feet while the Long Beach unit is 43,000 square feet. Membership warehouses usually devote about 25,000 square feet to food.

Fitton noted that about 500 sku's usually sold by wholesale clubs are packs or sizes that aren't traditional supermarket items. Retailers have had to adjust their businesses to use the merchandise.

The Convenience Clubs will offer the same packs and sizes found in wholesale clubs and "round out its mix with the goods that retailers need and want," he said. Convenience Clubs' business customers should be able to fill all their needs at competitive prices, rather than shopping a membership warehouse for some merchandise and then completing their order at a cash and carry wholesaler.

He noted that a small number of wholesale club customers—restaurants and food retailers—account for most of the sales. "We want to serve these customers along with clubs and organizations like Little League teams that purchase a lot of merchandise when they go to a club."

The two Convenience Clubs will be closely monitored before Cergro decides on opening more stores. The initial units will serve to test the concept as each is located in close proximity to a Price Club unit.

The stores won't advertise; instead, reps will call on food retailers in their market. The term "Club" is expected to draw consumers, Fitton said, because the membership warehouses have done "an excellent job" in making people aware of the club idea.

Cergro, a major food wholesaler, operates 13 traditional cash and carry Spartan warehouse stores, down from 21 units a few years ago. The extensive number of wholesale clubs in the region has cut into Cergro's overall sales, but volume at the remaining Spartans—which aren't open to the public—is up as the chain has responded to competition by lowering prices.

Spartans range from 8,000 square feet to 12,000 square feet in size and carry about 9,000 sku's. These cash and carry stores will continue to be Cergro's core business, with the Convenience Clubs providing additional volume.

Cergro disclosed plans to test two Convenience Clubs at recent supermarket industry gatherings and other food wholesalers have started to inquire about the concept.

Membership warehouses, meanwhile, are reportedly considering offering delivery service as a counter to the Convenience Clubs.

Ames Deals G.C. Murphy

(Continued from page 1)

priority in the coming year would be to reduce the company's debt load.

The sales agreement should be final by mid-September. Significantly, after suggesting that Office Shop Warehouse, Ames' office supplies specialty operation, might be for sale along with Murphy, Ames decided to keep it. "It's an area that shows a lot of promise, so we want keep an eye on it," he said.

Impact on Ames' sales is expected to be "insignificant," Roberts said. With Ames' fiscal 1990 revenues estimated at $5 billion, increased attention to the turnaround of the troubled Zayre stores was considered more important than the $175 million in sales rung up by the variety stores.

According to E-II Holdings, the newly acquired stores will still be called G.C. Murphy and Bargain World. According to McCrory Stores chairman Philip Lux, "The . . . stores are a natural fit for E-II Holdings, which already owns McCrory Stores and Bargain Time Inc. The addition of these stores is part of the expansion program we have been committed to in variety store retailing."

Lux added that the acquisition strengthens the company in key states like Indiana, Ohio and Pennsylvania. McCrory operates 1,300 stores in 38 states under a variety of names, including J.J. Newberry, McCrory, T.G.&Y., McLellan and Kittinger. Annual sales are in excess of $1.5 billion.

Chuck Merck, a former McCrory regional manager, will head up the new G.C. Murphy division.

Office Square Readies for Expansion

(Continued from page 3)

the two current units are in Chicago—along with smaller communities, with Akron, Ohio, and Lansing, Mich., cited as examples.

Office Square's projected 23 stores would still leave the chain far behind in the race among office supply warehouses to open as many units as quickly as possible. Four chains—Office Depot, Staples, Office Club and BizMart—will be operating anywhere from 28 to 55 units by year-end alone, with at least 10 firms likely to be twice Office Square's size in two years.

K mart's plan to expand Office Square came on the heels of the resignation of Frank S. Denny, Builder Square's chairman who founded the discount office supply chain. Denny recently launched Office Products of America as his second entry into the office supply megastore field (see *DSN*, Aug. 7, page 3). Denny's severance deal with K mart prohibits him from opening stores in Illinois, Michigan and Ohio for two years.

Jack Gutherie continues to head up Office Square as its executive vice president and general manager.

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Vol. 28, No. 16 August 21, 1989

Service Adds to Debt to Avert Takeovers

(Continued from page 3)

to cover capital spending as no dividends are expected in coming years."

The cataloger will unveil 20 showrooms this year and projects 14 to 16 new stores yearly in subsequent years. The new units being opened this year include the chain's first showrooms in Virginia, home state of rival Best Products. These stores are in the Alexandria and Woodbridge suburbs of Washington and in the Tidewater city of Hampton. Units are projected for next year in the Chantilly suburb of Washington and in Roanoke.

With Virginia, the cataloger now has showrooms in 37 states, the second-largest national presence of any major discounter. K mart is in all 48 contiguous states, while Target is in 29, Best is in 27, Wal-Mart is in 25 and Ames is in 22.

Service's chairman and president Raymond Zimmerman said the recapitalization was "undertaken at the company's own initiative and should be distinguished from defense restructurings that require sales of assets or other fundamental changes in business strategy." The board believes the recapitalization "will help to enhance the stock market's awareness of the company's intrinsic values," he added.

The recapitalization involved three elements:

- A $360 million 5½ year term loan at 1¾ percent over prime. The repayment schedule, starting in December, calls for payments of $20 million, $60 million, $70 million, $80 million and then the remainder.
- A $140 million real estate bridge loan due in July 1990. It will be replaced by permanent mortgage financing on some of the cataloger's real estate.
- A $475 million working capital revolving credit facility from a syndicate of lenders led by Chemical Bank, New York.

PACE Set to Install Interactive Terminals

(Continued from page 3)

resentative said other membership warehouses are considering using the kiosk.

The terminals mark the debut of NCR as a supplier of interactive kiosks. NCR had exhibited its unit in January at the National Retail Merchants Association's convention and in May at Touche Ross' Electronic Retailing '89.

Besides NCR's hardware, the terminal runs on a software and graphics program supplied by Origin Technology and Multivision. Origin failed in an attempt to market its own kiosk and redirected its efforts to developing software. Companion Systems supplies the kiosk housing.

While Jan Bell sponsored the jewelry kiosks, PACE initiated the tire and battery informational terminals, which were developed and supplied by ByVideo Inc.

Jan Bell's Fort Lauderdale headquarters is online to the kiosks to poll the units and monitor their self-diagnostic program for maintenance.

Jan Bell is the dominant jewelry vendor to the wholesale club industry, supplying merchandise to six major chains: Price Club, Sam's Wholesale Club, Costco, BJ's Wholesale Club, The Wholesale Club and PACE. Last month it began a test program at the Sears Outlet stores in Philadelphia and Washington, with merchandise also due to be included in a Sears specialty catalog in the fall.

Jan Bell president and chief executive officer Alan Lipton said the kiosks represent "the biggest enhancement yet to our growth." Jan Bell's sales last year were $120 million, up 47.5 percent from $72.5 million in 1987. Membership warehouses accounted for about 90 percent of its sales, up from about 80 percent in the prior year.

While PACE merchandises 80 to 120 sku's in its jewelry showcases, the kiosk will sell about 300 items, most of which will be special order goods that aren't found in the jewelry display. Jan Bell was selecting the kiosk's exact mix at presstime.

Customers will buy jewelry through a kiosk by viewing the available items on the terminal's TV screen, selecting the merchandise they want via the touch-screen and obtaining a receipt, listing the specific goods and prices.

The kiosk's presentation will indicate whether the goods are basic items, stocked in the store, or special order merchandise, which can be picked up at the club within five business days.

The customers then take the receipt to PACE's pickup counter to purchase in-stock jewelry and/or to pay for the special order goods. They will have to return to the store to actually pick up the latter merchandise.

Kiosk orders are polled at night by Jan Bell so the vendor can replenish the core in-store mix and to track what special order goods are to be shipped to which stores. But each store also reports the actual purchases of special order goods, so that the vendor doesn't end up shipping merchandise that customers have indicated they want but haven't really bought.

The store handles the entire sale, the Jan Bell representative said, to maintain PACE's identity as the jewelry merchant and to encourage additional visits to the club. As PACE, and other membership warehouses, don't accept credit cards, there wasn't any convenient method for the kiosks to be used as a mail order device, similar to the way customers buy merchandise through other kiosks.

The kiosks, which are being incorporated into PACE's jewelry section showcases, include a telephone so that shoppers can obtain additional product information and even discuss possible customized changes to an item.

Jan Bell has developed different programs for each wholesale club. Some best sellers are carried by all clubs but most items are only merchandised by one chain. The mix includes goods with prices as high as $10,000.

Thomas Named New APAA Chair

LANHAM, Md. — James W. Thomas, a vice president of Maremont Corp., has been nominated as chairman of the Automotive Parts & Accessories Association. Nomination is tantamount to election, set for Aug. 27, and Thomas is expected to take office the day the APAA auto show opens in Chicago Aug. 28.

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Kmart Test Previews Look of 1990

Powerful Graphics, Displays Highlight Detroit Test Unit

By Kenneth M. Chanko

OAK PARK, Mich. — Adopting many of the sophisticated merchandise presentation techniques from its American Fare hypermarket, K mart has unveiled a significantly upscaled look for its traditional discount store.

With the opening here early last month of its 86,000-square-foot "laboratory" test unit—its first new store in the Detroit metro area in eight years—the nation's No. 1 discounter has been conspicuously transformed. Officials said the unit depicts the look of K mart stores for 1990.

In terms of an upscale look, this new test store—which was built from the ground up—is head and shoulders above even the sharpest looking K mart store of a mere two years ago.

"We wanted to enhance the presentation to show our customers what our merchandise really looks like," said Joseph Antonini, K mart chairman, who appeared at a brief ribbon-cutting Aug. 3 at the store, located at 26200 Greenfield in the Lincoln Center.

It's the same merchandise sold at over 2,200 K mart stores, but it's displayed with heightened sophistication at the new Oak Park, Mich., store. (DSN photo)

In addition to upgraded, high-tech fixturing and a proliferation of full-color, oversized signage and graphics, the traditional orange and blue K mart color scheme has been abandoned. New features include: Fire-engine red graduated banners hanging from the ceiling along the racetrack identifying the different departments, higher ceilings and merchandise attractively displayed high and wide against back walls.

Richard Miller, executive vice president, K mart Stores, said, "We're using shelving that holds full-pack quantities of product. We've also decreased stockroom space to get more product on the selling floor."

Full-color three-sided hanging graphics, deeper endcap shelving allowing for more powerful displays and merchandise presented up to 12 feet against back walls that readily identifies the department from across the store, are among the display techniques that give the store a very un-K mart-like pop.

"I've had more than one customer come up to me and say they never knew we carried a particular product that we've always carried at our stores," said Bill Lauter, co-manager of the store. "It's because of the new presentation. People have also told me it doesn't look at all like the K mart they're used to."

The apparel and CE presentations are particular standouts. Apparel occupies 38 percent of the 71,000 square feet of selling space, an increase over

(Continued on page 43)

Sears Tackles Its Women's Problem

Upscales Image, Presentation in Ladies' Apparel

By Kenneth M. Chanko

AURORA, Ill. — With the unveiling of its revamped women's apparel department here last month, Sears has finally made a significant effort to revitalize one of its most troublesome merchandising categories.

Sears' 30,000-square-foot "The New Women's Store at Sears," on the second floor of its Fox Valley store, is the last of the retailer's new apparel departments to debut. Of all Sears' new everyday low price "power departments," women's apparel offers the greatest challenge to the nation's No. 1 retailer.

Wayne G. Williams, vp, women's apparel, in front of the new, upscale Mainframe shop in 'The New Women's Store at Sears' department at the Aurora, Ill., store. (DSN photo)

"We have a long way to go in terms of image," admitted Wayne G. Williams, vice president of women's apparel, accessories, footwear and luggage at the Merchandise Group. "In sales, we do more business than men's or kids', but there's a lot more business we *could* be doing in women's." Like "The Men's Store at Sears," which debuted at this store

(Continued on page 44)

Sears Previews Hardware Power Format–see page 31

May Deal Makes Sense For Two Major Chains

Bradlees-Caldor, Target-Venture Possible

By Richard C. Halverson
Nationwide DSN Report

News Analysis

About all anyone can say for certain about the proposed sale of Caldor and Venture is that a lot of retailers and investor groups would love to own the chains—if the price is right.

But it apparently wasn't right for the first go-round, one analyst of retail stocks speculated, when May Department Stores privately solicited bids for its discount chains. Consequently, May had to call on the services of Morgan Stanley to put the chains on the public auction block in June and find a buyer willing to pay the price, said the analyst for a major New York brokerage house. (The analyst requested to remain

(Continued on page 43)

Price Club Shuffles Execs To Support Diversification

By Pamela Meek

SAN DIEGO — Price Co. has reorganized its operational structure in a move that signals the growing importance of its non-warehouse club operations.

The membership warehouse club industry leader based here has named its chief financial officer, Giles Bateman, to a new role as director of non-warehouse operations.

Bateman, whose new position has not been given a formal title yet, has been Price Co.'s cfo since its inception. He retains his executive vice president title, but gives up his financial role in order to oversee Price's diversification into other avenues of growth, including its Price Club Indus-

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Sears, Kmart Kick Off Promotions

NEW YORK — Sears kicked off its joint sweepstakes promotion with NBC Sunday, Sept. 3, with an in-store celebration at its 850 locations nationwide. K mart, which is also involved in a joint network sweepstakes (see *DSN*, May 22, page 1), will debut its promotion with CBS Sept. 17. Sears stores will preview NBC's fall lineup with banners, mobiles, posters, tent cards, billboards, a video of five new shows, and a variety of other events with local NBC affiliates including special guest appearances. K mart plans similar events. In order to enter the promotion, Sears' customers must complete entry blanks and provide answers to five questions about five of NBC's new shows. Sears will pick a winner at random from a selection of Sears stores. Four grand prize winners will be awarded a role in one of NBC's new shows. Over $2 million in cash and prizes will be given away. K mart is utilizing an instant match game card that can be redeemed immediately for a prize at all K mart stores. Both retailers, who are promoting the sweepstakes in their newspaper circulars, are looking to boost store traffic and sales.

Clover to Expand Into Delaware

PHILADELPHIA — Clover will expand into Delaware next year when it opens an 83,000-square-foot store in a former Bradlees in the Kirkwood Plaza Shopping Center in Wilmington. Clover, the discount division of Strawbridge & Clothier, currently operates 23 stores in Pennsylvania and New Jersey.

Present Acquires Cataloger Save-Rite

ROCHESTER, N.Y. — In a synergistic move, the $77 million Present Co. has expanded its 32-showroom chain in central New York into Rhode Island, Connecticut and Massachusetts by acquiring the seven-unit, $39 million Save-Rite chain for an undisclosed amount. Both catalogers are members of the MAI group and each operates fine jewelry stores besides full-line showrooms.

Goldblatt's Opens Another Chicago Unit

CHICAGO — Goldblatt's Department Stores next month will open its 12th discount store in the Windy City when it unveils a 40,000-square-foot unit as a co-anchor in the Lake Meadows Shopping Center on the near South Side. A 50,300-square-foot Jewel Food is the other anchor in the 177,000-square-foot community center that serves two high-rise apartment complexes, the Michael Reese Hospital and the Illinois Institute of Technology.

Stanley Works Nails Parker Tool Firm

NEW BRITAIN, Conn. — The Stanley Works has completed its acquisition of The Parker Group, Northboro, Mass., adding Parker fastening tools: glue guns, stapling guns, riveting tools and soldering tools,to its product mix. Terms of the deal were unannounced. Stanley sales last year totaled $1.9 billion.

FOR THE RECORD

The phone number of AEI Music Network, a Seattle-based firm that handles music performance rights and record company contractual fees, is (206) 329-1400. The number was incorrect in the Aug. 7 issue of *DSN*.

Wal-Mart Tells Vendors to Supply Environmentally Safe Merchandise

BENTONVILLE, Ark. — Wal-Mart has become the first major retailer to publicly identify itself with the nation's growing concern over the environment by "challenging" its suppliers to provide environmentally safe products.

As the nation's third-largest retailer, Wal-Mart's action could eventually have a major impact on how manufacturers produce and package their goods. Wal-Mart's challenge, announced in full-page ads in *The Wall Street Journal* and *USA Today*, is seen as boosting the swelling effort among food and general merchandise manufacturers to provide environmentally sound products in recyclable or biodegradable packaging.

In the ad, Wal-Mart said it would "highlight the improvements you make with special signing in our stores alongside your products. Together, we'll provide our customers with the choice to purchase environmentally improved products."

The discounter, however, didn't plan to drop any products because of environmental considerations from the mix in either the Wal-Mart or Sam's Wholesale Club stores, a company spokeswoman told *DSN*.

The special notices will be shelf tags and other "highlight" signs, the spokeswoman added, but no date was given for the rollout of the signage.

Wal-Mart's environmental awareness program is similar to its "Buy American" effort to promote the use of merchandise manufactured in the United States. The company has reaped heaps of positive publicity from that ongoing campaign, enhancing its perception as a socially conscious retailer and creating jobs in many of its prime markets. Other merchants have been seen also-rans, claiming identical efforts to purchase more American-made goods but failing to derive the same consumer recognition.

A similar situation could occur in Wal-Mart's environmental drive. The retailer has again staked out a position as a socially responsible company, while competitors are reduced to playing follow-the-leader in their concern for the environment.

Before placing the ads in the two newspapers—which have the largest business and

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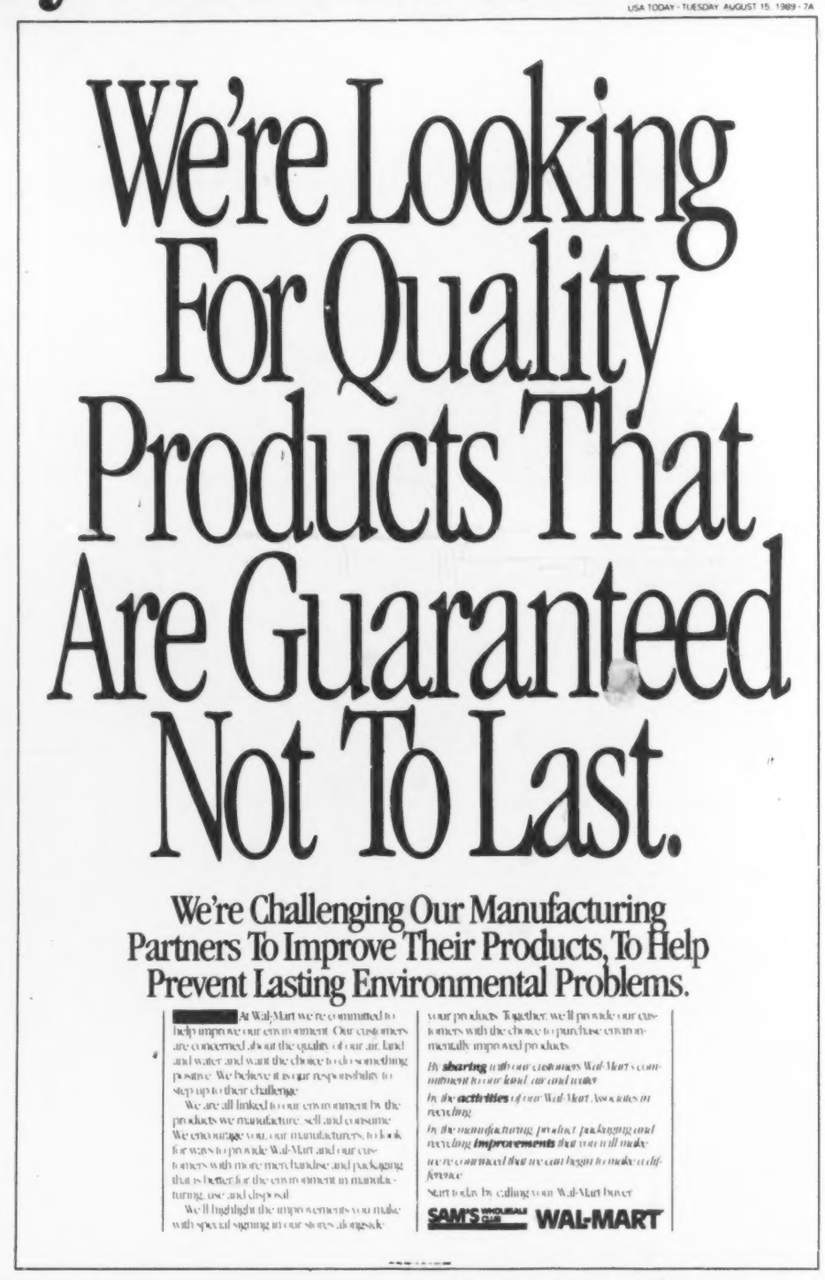
USA TODAY - TUESDAY, AUGUST 15, 1989 - 7A

We're Looking For Quality Products That Are Guaranteed Not To Last.

We're Challenging Our Manufacturing Partners To Improve Their Products, To Help Prevent Lasting Environmental Problems.

At Wal-Mart we're committed to help improve our environment. Our customers are concerned about the quality of our air, land and water and want the choice to do something positive. We believe it is our responsibility to step up to their challenge.

We are all linked to our environment by the products we manufacture, sell and consume. We encourage you, our manufacturers, to look for ways to provide Wal-Mart and our customers with more merchandise and packaging that is better for the environment in manufacturing, use and disposal.

We'll highlight the improvements you make with special signing in our stores, alongside your products. Together, we'll provide our customers with the choice to purchase environmentally improved products.

By ***sharing*** *with our customers Wal-Mart's commitment to our land, air and water.*

In the ***activities*** *of our Wal-Mart Associates in recycling.*

In the manufacturing, product packaging and recycling ***improvements*** *that we will make as we commit that we can begin to make a difference.*

Start today by calling your Wal-Mart buyer.

SAM'S WHOLESALE CLUB WAL-MART

Wal-Mart played up its new program promoting concern for the environment with ads in The Wall Street Journal and USA Today.

Washburn Shifts From Wal-Mart to Sam's

BENTONVILLE, Ark. — Colon Washburn, formerly senior vice president, general merchandise manager for all apparel categories at Wal-Mart, has been shifted to senior vice president, gmm of all merchandise categories at Sam's Wholesale Club.

Washburn succeeds Rob Voss, who will work on "special projects" for Sam's.

A replacement for Washburn has not been announced.

Washburn will have total merchandising responsibility for soft lines, hard lines and food at Sam's.

It hasn't been determined to whom Washburn will report. Nick White is executive vice president and general manager of Sam's, and he reports to Al Johnson, corporate vice chairman, who recently came out of retirement to head up Sam's, which doesn't officially have a president yet.

Washburn had been senior vp, gmm of all apparel at Wal-Mart for the last eight years. Before that, he was a divisional merchandise manager of men's and children's. He joined Wal-Mart in 1971 as a sales clerk.

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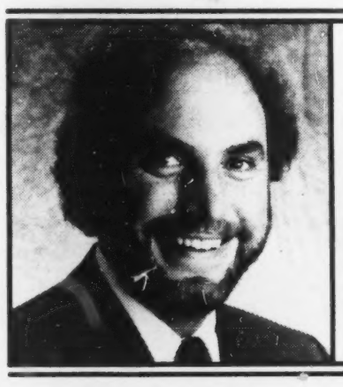
SPARC Awards Promote Partnerships

As I sat on the dais during *DSN's* recent vendor awards banquet, which is affectionately called SPARC (Supplier Performance Awards by Retailer Category), I began to think about the buzzword *partnership* and what it actually means.

While *Discount Store News* has sponsored the SPARC Program since 1978, only recently has the retailer/vendor *partnership* has become a major issue among retailers. Several top discounting executives, including K mart's Joe Antonini and Wal-Mart's Dave Glass, have been outspoken on the subject. It seems that almost every retailer has jumped on the "partnership bandwagon." Individual vendor recognition programs abound, although *DSN's* SPARC program is the only industrywide awards program in existence.

As SPARC committee chairman Gene O'Donnell announced the names of 60 vendors in 20 merchandise categories during the banquet, I kept hearing the word partnership . . . partnership . . . partnership. The word partnership alone, I thought, certainly does not guarantee shelf space, success or increased sales. What is it then that these 60 companies have done or contributed that they would garner such recognition from the industry's top retailers? Inevitably, this question is asked again and again by both retailers and suppliers.



TONY LISANTI
Editor

The answer can be found simply in the basic criteria that are used by retailers to judge the SPARC nominees. These 10 points can be a checklist for both retailers and suppliers from the top gmm's and nsm's to store managers and account supervisors to evaluate their programs and insure a long-lasting and profitable partnership. They are:

- ☐ Self-sell packaging.
- ☐ Gearing product mix to maximize turn and profit.
- ☐ New product innovations.
- ☐ Simplified reorder systems to speed replenishment.
- ☐ Meeting delivery commitments.
- ☐ Service programs (i.e., planograms) designed to increase total department productivity.
- ☐ Availability of advertising support.
- ☐ Pre-selling through consumer advertising programs.
- ☐ Quality control.
- ☐ A complete ongoing program to meet the specific needs of discount retailers.

As a longtime supporter of the vendor/retailer partnership, *DSN* will soon launch a regular series of articles focusing on the top three SPARC award winners by category. The purpose will be to analyze the specific policies and programs that these vendors have established with retailers that helped them achieve industrywide recognition.

The importance of participation, not only in SPARC, but other programs as well, may sometimes be underestimated by some retailers and vendors. A surprising and unfortunate occurrence at the August 13 banquet is a perfect example: When SPARC chairman O'Donnell announced the first place winner—Sauder—in the RTA category and no representative was in attendance, the audience booed loudly in disbelief. I make this point not to be critical of Sauder, but to emphasize the value and importance the industry places in the SPARC awards program.

In today's environment, the true partnership can be an effective tool to increase sales, a classic win-win situation.

The SPARC program proves that a partnership is more that just being on-line.

P.S.—Complete coverage of the 12th SPARC Awards Banquet, including photos and a list of all award winners, will appear in the next issue of *DSN*. In addition, profiles of the Discounter of the Year, Vendor of the Year, and Hall of Fame inductee will also be included.

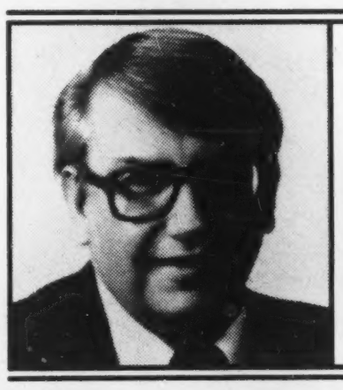
Congratulations to every SPARC award winner and to ShopKo's Bill Tyrrell, Discounter of the Year; Newell's Dan Ferguson, Vendor of the Year; and Ames' Herb Gilman, the newest member of *DSN's* Discounting Hall of Fame.

WASHINGTON REPORT

VAT Spells Trouble for the Discount Industry

Despite the President's "read my lips" campaign promise not to raise taxes, government will be taking a bigger bite out of the discount industry profits next year.

Even if Washington manages to hold the line—a shaky premise to begin with—retailers across the country will be paying more to state tax collectors in 1990.



KEN RANKIN

Indeed, according to IMRA's State Legislative Service, lawmakers in at least 30 states have voted to raise taxes already this year. Of that group, nearly two dozen states increased their excise taxes, six "significantly" raised personal income taxes, and five (Connecticut, Georgia, Kansas, North Dakota, and West Virginia) approved corporate tax hikes. Another five states—Connecticut, Illinois, Missouri, Montana and Rhode Island—have enacted large increases in sales tax rates.

Back in Washington, at least one major federal tax—the Social Security payroll tax on both employers and employees—will continue to climb next year regardless of what Congress does.

Moreover, the Bush administration's chant of "no new taxes" notwithstanding, House and Senate Democrats are committed to force President Bush to accept some form of "revenue enhancement" as part of any compromise package to keep the federal budget deficit in compliance with Gramm-Rudman-Hollings guidelines.

Options include higher excise taxes on alcohol and tobacco, a stiff new oil import tariff, and "user fees" on federally regulated businesses.

At the same time, some congressional leaders are mulling the possibility of expanding the existing federal tax base in order to fund new government programs during the 1990s.

One possibility, of course, would be a straightforward hike in business and individual income tax rates. Such a move, however, would be widely perceived as congressional back-tracking on the "tax reform" law which reduced rates in return for eliminating loopholes.

Ultimately, consumers would end up paying the VAT, in the form of inflated retail prices. Such price increases could create considerable consumer resistance to budget-priced lines.

As an alternative, some congressional leaders are exploring an entirely new form of taxation—a tax on consumption.

Consumption taxes aren't new, of course. So-called "value-added taxes" have been widely used in European countries for decades.

Like a national sales tax, a VAT would generate enormous revenues. Indeed, the Congressional Budget Office estimates that a value-added tax could capture as much as $80 billion annually.

Unlike a national sales tax, however, a VAT would be imposed on each level in the production and distribution process. Manufacturers would pay their share and then factor that amount into their prices. Wholesalers and retailers, in turn, would do the same.

Ultimately, though, consumers would pay the VAT in the form of inflated retail prices. Because it increases the cost of consumption, this kind of tax would inevitably dampen retail sales—particularly in the discount store industry. An extra 5 percent tax shouldn't have much effect on the demand for luxury goods, but it could create considerable consumer resistance to budget-priced lines.

For discounters, this could be the cruelest tax of all.

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Discount Stores Attract Heavy Cosmetics Users

By Mary Ellen Kelly
Nationwide DSN Report

The two strong suits of the discounter cosmetic/fragrance department are low-ticket merchandise that lend themselves to color experimentation such as nail tips or polishes, and alternative designer fragrances (ADFs).

Also in their favor, discount stores attract a much higher percentage of "heavy cosmetics users," than do other types of stores. Defined as women who had purchased at least seven of 12 different types of cosmetic products during the past year, these heavy users spend an annual average of $154 on cosmetics and fragrance items, compared with $61 for moderate users and $18 for light users.

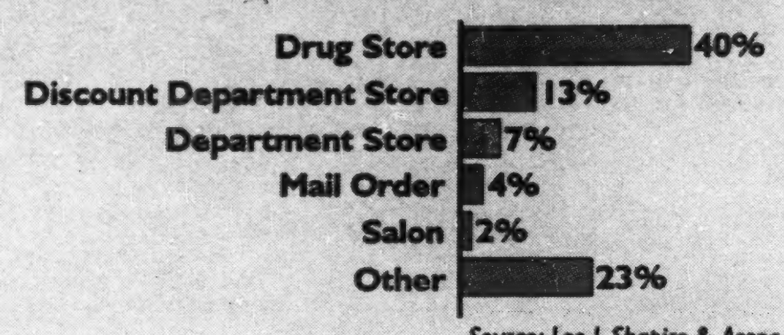
About one-quarter of the 453 women across the country who participated in the survey, conducted by Chicago-based Leo J. Shapiro & Associates exclusively for *DSN*, said they have shopped at discount stores for cosmetics and fragrances during the past year. Additionally, roughly 20 percent of the respondents singled out either K mart or Wal-Mart as outlets where they made their most recent purchase of these products.

Item	Average Expenditure	Average Number Bought
Perfume or Cologne	$25.10	3
Facial Creme	16.20	3
Facial Masks	14.70	2
Eye Make-up	14.60	4
Artificial Nails	14.00	3
Base	13.80	3
Face Powder	12.60	2
Lipstick	11.80	4
Blusher	10.20	2
Nail Polish	9.60	5
Nail Hardener	8.30	3
Nail Polish Remover	3.80	2

Source: Leo J. Shapiro & Assoc/DSN

Where Women Buy Alternative Designer Fragrance Products

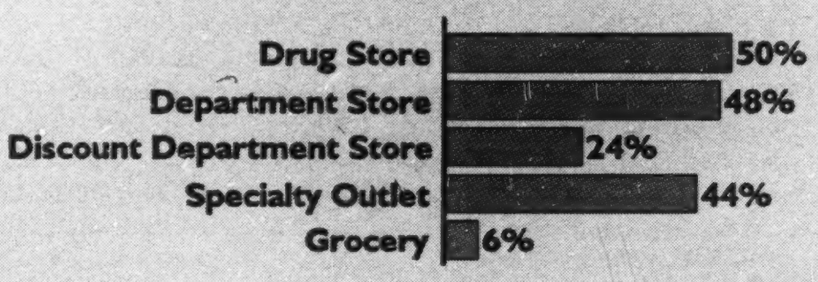
Percent of Women Who Have Ever Purchased a Perfume Copy



Source: Leo J. Shapiro & Assoc./DSN

Where Women Last Bought Cosmetic/Fragrance Products

Percent of Women Who Purchased Cosmetic/Fragrance Products In Past 12 Months



Source: Leo J. Shapiro & Assoc./DSN

Discount Store Shopping

Percent of Women Making Most Recent Purchase at Discount Store

Source: Leo J. Shapiro & Assoc./DSN

Drug stores and department stores were favored by 50 percent and 48 percent, respectively. While twice as many women said their last purchase was at a drug store rather than at a discounter, K mart and Wal-Mart were each mentioned more than any single drug store chain. Revco and Osco were the top rated drug store chains, but each were noted by only about 6 percent of survey participants as the place where they made their last cosmetics or fragrance purchase.

Specialty cosmetic sources were very popular among the women in the survey. Avon was the most often cited cosmetic and fragrance source of all outlets—drug, discount, department or specialty. Mary Kay was also a popular specialty source, named by another 8 percent.

While cosmetic and fragrance customers may shop at department stores, drug stores and specialty sources more often than discounters, each of these female customer groups spent an average of $83 each year in the department, regardless of store type.

The special attributes of the discount store customers include a greater than average annual expenditure on eye make-up, nail polish, base and face powder. Discount store shoppers are also much heavier cosmetic users; 42 percent were heavy cosmetic purchasers compared with 26 percent of those who generally do not shop discounters.

More women said they bought perfume or cologne during the past 12 months than any other product included in the survey. A total of 57 percent of respondents purchased a fragrance during the past year. On average, these women spent a total of $25 on three fragrance purchases during the past year, nearly $9 more than the amount they spent on facial creme, the second-ranked product on the survey.

The amount spent on fragrances was inversely related to the total amount spent on cosmetics or fragrances during the year. That is, those who spent the least amount of money on the cosmetics/fragrance category, spent the largest percentage of those dollars on perfume or cologne; those who spent the most on cosmetics spent the smallest percentage of dollars on perfume or cologne.

Shoppers Know About ADFs

Alternative designer fragrances had a high recognition rate—60 percent have seen these products. About 25 percent of the women familiar with ADFs have tried them. Women who shop discount stores are more likely to try ADFs. Among discount store shoppers who have heard of these fragrances, 38 percent have tried them.

Nine percent of the women said they would be very interested in purchasing an alternative designer fragrance product and 26 were somewhat interested. The 62 percent who were not at all interested decided not to buy an ADF for two reasons: these women either do not wear perfume very often, or they objected to the quality of the imitations.

Discount store shoppers were significantly more interested in ADFs. Forty-one percent of discount store customers were interested in trying an ADF, compared with the 34 percent of non-discount shoppers that were similarly inclined.

Not surprisingly, the most favorable quality of ADFs was the low price. Eighteen percent of those who made a positive statement mentioned price as a factor.

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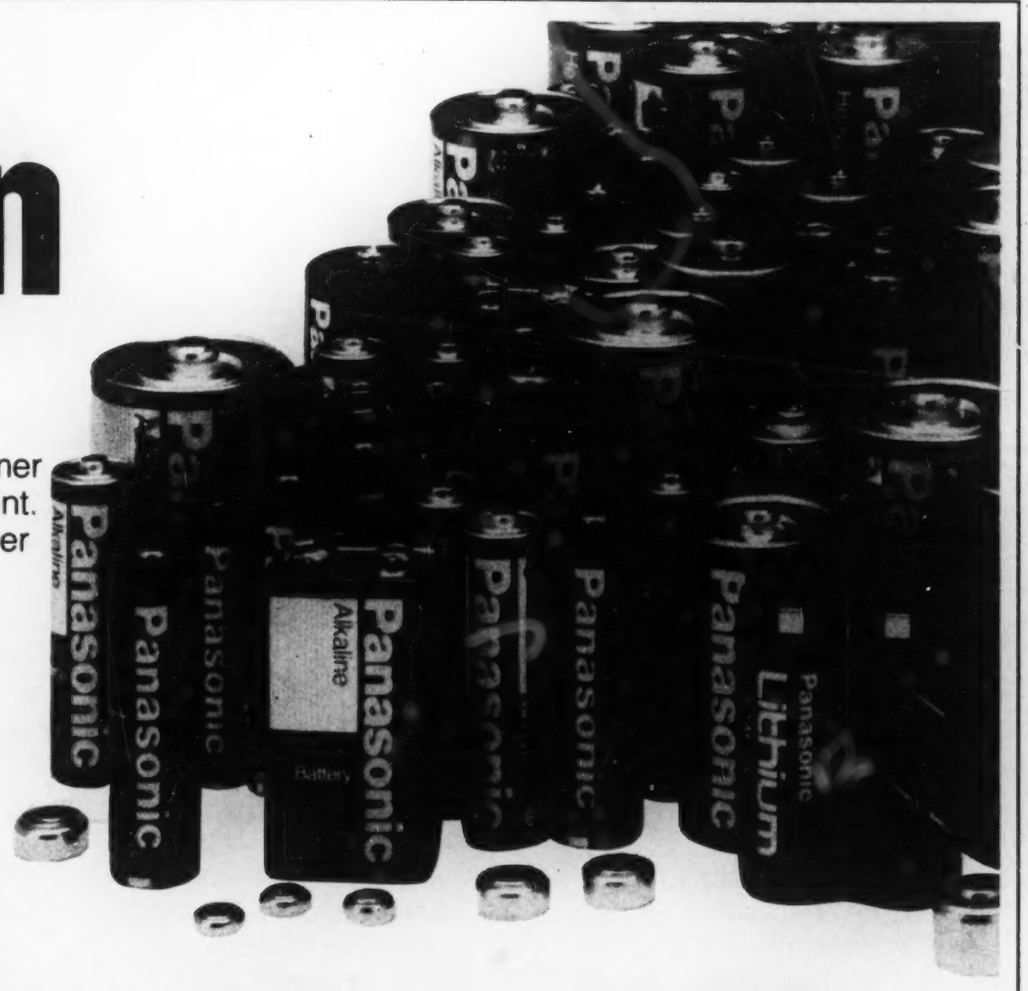

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Bradlees Unites CCTV, POS to Curb Cashier Theft

(Continued from page 3)
to curb employee theft that stems from collusion at the cash register.

Dubbed Dataplexer, the cashier surveillance system, which Bradlees is rolling out at the rate of five stores a week, marries closed circuit television cameras to point-of-sale information.

Sitting in the control room, security guards can watch TV monitors on which the actual POS information cashiers are ringing up overlays a CCTV view of their activities.

In a 10-store test in the first quarter, Bradlees recovered an average of $1,000 of merchandise a month per store, said Sam Asano, president and founder of the vendor, Shintron, Littleton, Mass.

Bradlees projects that the surveillance system will help trim its shrink rate by a full percentage point, Asano said. That would push it down to the discount industry range of 1.5 percent to 2.0 percent and add some $20 million to Bradlees' bottom line. The chain expects to recoup its investment by Christmas, Asano said.

Jack Chambers, head of management information services for Bradlees, confirmed that his chain is rolling out the Dataplexer system but declined further comment.

Bradlees thus joins at least two other major discount chains using similar surveillance systems, said Jack Hayes, a loss prevention consultant for Ernst & Young and head of his own LP consulting firm, Hayes International.

Such systems are quite successful in terms of both dollar recovery and apprehension, Hayes said. "They're a coming trend."

Sensormatic, Deerfield, Fla., whose main business is electronic article surveillance tags, also has developed a system called POS/EM that marries CCTV to POS, Hayes said.

The Bradlees rollout apparently is the first among discounters, said Mike Smith, product manager for Sensormatic's POS/EM. Sensormatic has installed POS/EM in about 40 retail locations, mostly department stores, Smith said, but no discounters.

Such systems have been out for a number of years, Smith said. Apparently the first was developed by Dan'l, St. Paul, Minn., for use by Target, he said. Other vendors include POSSI, Minneapolis, and Jensen, Chicago, Smith said.

POS/EM, which stands for point-of-sale exception monitor, differs from other such systems in that it doesn't require constant surveillance, Smith said. Instead, it will render a printout at the end of the day of the activities of suspect cashiers, such as those whose transactions take longer than usual or whose coupon redemption ratios are higher than normal, Smith said. Then security officials can go back and view the videotapes of just the suspicious transactions, he said.

Cashiers caught through such systems have confessed to stealing as much as $25,000 worth of merchandise, Hayes said.

Bradlees is just starting to test scanning in one of its 131 stores, Asano said, but ingenious cashiers have learned to cheat even scanners, he said.

They do so by pasting a scanning label to their forearms under sleeves, Asano said. Then they scan that label, instead of the bar code on the stolen item.

With Dataplexer, security personnel can monitor actions of individual cashiers by flipping TV cameras from checkout to checkout. Store managers assign suspect cashiers to the checkout that provides the best view of their actions, he said.

The activities of cashiers can be videotaped and the tapes stand up in court as evidence, Asano said.

The Dataplexer uses POS software from IBM, so IBM shares in the revenues from his system, Asano said. Other retailers can use Dataplexer, Asano said, provided their personal computers are IBM compatible.

IMRA will hold its fifth annual loss prevention conference from Sept. 10 to 13 in the Westin Oaks Hotel, Houston.

Peter B. Hollis, president and chief executive officer of Ames, will be the keynote speaker on the subject of "Strategic Marketing Issues of the '90s." In 1987, Hollis had to grapple with an unexpected $20 million inventory shortage that appeared after Ames acquired G.C. Murphy.

Ames overhauled its shrinkage control programs and procedures in all three areas, employee theft, shoplifting and paper shrink, following that discovery and expects that tighter controls will prevent a recurrence of shrink problems following its acquisition last October of the 388 Zayre stores.

In general session on Tuesday, Jack Shewmaker, a consultant and former president and vice chairman of Wal-Mart, will speak on "Discount Retailing in the 1990s."

Sears Revamps Women's Apparel

(Continued from page 1)
in June, and "Kids & More," which was unveiled in Merrillville, Ind., in March, "The New Women's Store" at Sears is an enlarged and upscaled department that now carries 90 percent national labeled/branded merchandise.

"We have to become more attractive to the female customer," said Williams. "We have a great customer base going through the store, but the woman who walks through is selective. A lot of times she'll walk right by the women's department. We have to get her interested in this merchandise. We know we have the brands and labels she likes, and now we have it in a much different environment."

Williams said there will be six to eight other Sears stores that will get this new women's department before year-end. In 1990, Sears is targeting close to 100 of its largest stores to get the revamped department. The largest departments will run up to 36,000 square feet, while some smaller stores will see 12,000-square-foot women's apparel departments.

Up and running by the first of the year will be the retailer's S.A.M.S., or Sears' Apparel Merchandise System, which will allow merchandisers at headquarters to read sales every day by sku per store to aid in more precise and speedy replenishment.

"Our ability to flow the goods has been a problem in the past," admitted Williams, who added, for example, that all dresses will move out of one warehouse now instead of three different ones.

The department also offers a more focused product presentation, which means less sku's on the floor. "We've given up the highest and lowest price points—no more $19 to $140 price points—to both offer the best value and to reduce customer confusion," said Williams.

The new department, which is almost double the size of the men's department, is 10 percent larger compared to the old women's wear department at this store, even after the moving of maternity and girls' to the Kids & More area.

However, Williams emphasized that one of the keys to the new department is wider aisles and a lot more space between racks and fixtures.

"You'd never think that Sears would give up that much space to give the customer room to turn around, but we have," said Williams. "Historically, it's been a sea of racks. That look is out."

The layout puts the retailer's upscale junior-oriented sportswear shop, called Mainframe, at the front of the department as the customer enters off the mall on the second level. Williams called the Mainframe shop "a winner," adding that more space will be given to the Mainframe shops in future departments.

There is also junior sportswear directly to the right of the second-floor mall entrance, and missy casual sportswear to the left.

Activewear is the bridge across the aisle between the men's and women's areas.

The 8-foot focus walls used throughout the department are not attached to the ceiling to allow for increased flexibility, Williams noted.

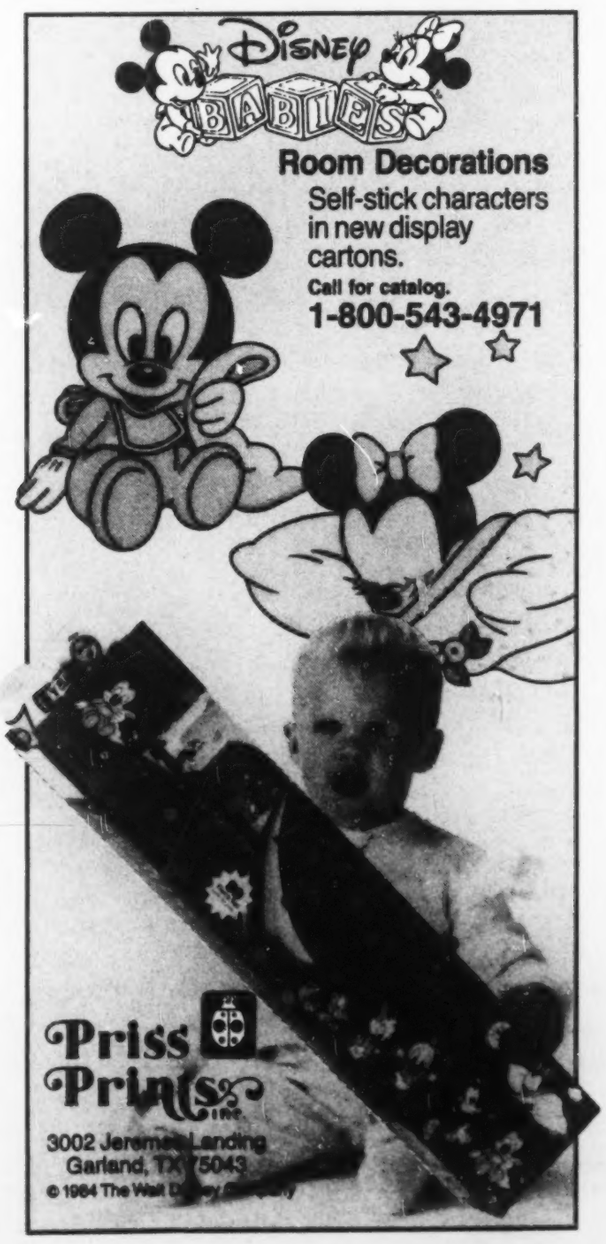
Footwear has been substantially upgraded, with 60 percent to 70 percent of women's shoes being leather or suede, with many of the shoes selling at $30 to $35.

"We've given the department the kind of environment to sell at those kinds of price points," said Williams.

In dresses, all product is now national labels, such as SL Fashions, Tina Barrie/Jenny and Stuart Alan.

Sears has added two private labels, Middlebrook Park, which is a line of classic missy sportswear, and Premises, a line of more contemporary sportswear. The Middlebrook Park collection, in particular, has been attractively merchandised.

Both programs have been developed and designed (and in the case of Premises, sourced as well) exclusively for Sears by Associated Merchandising Corp., which develops women's apparel lines for upscale department stores. AMC is also working on other lines for Sears, including a collection of plus-size apparel, said Williams.



Wal-Mart Promotes Environment

(Continued from page 2)
general readership, respectively, in the nation—the company sent letters to its suppliers calling on them to house their products in environmentally harmless or recyclable packaging. The company received a positive response from many vendors, the spokeswoman said.

Wal-Mart undertook its campaign in response to customer letters voicing distress about the state of the environment, the spokeswoman said. The ad noted this impetus by stating: "Our customers are concerned about the quality of our land, air and water, and want the opportunity to do something positive. We believe it is our responsibility to step up to their challenge."

The ad goes on to declare that "we are all linked to our environment by the products we manufacture, sell and consume. We encourage you, our manufacturers, to look for ways to provide Wal-Mart and our customers with more merchandise and packaging that is better for the environment in manufacturing, use and disposal."

Wal-Mart calls its effort "a first step," adding: "We're convinced that we can begin to make a difference."

The company's timing is opportune, coming as the "Green Revolution" gathers strength and a growing number of manufacturers are starting to use biodegradable or recyclable packaging. More and more communities, meanwhile, are requiring households to separate garbage into reusable and non-recyclable refuse.

Also, one recent consumer survey reported that more than half the respondents didn't buy a product because of environmental concerns, while about three-quarters said a company's environmental reputation influenced their purchasing decisions.

The survey also indicated that consumers were ready to pay more for environmentally sound products.

DISCOUNT STORE NEWS

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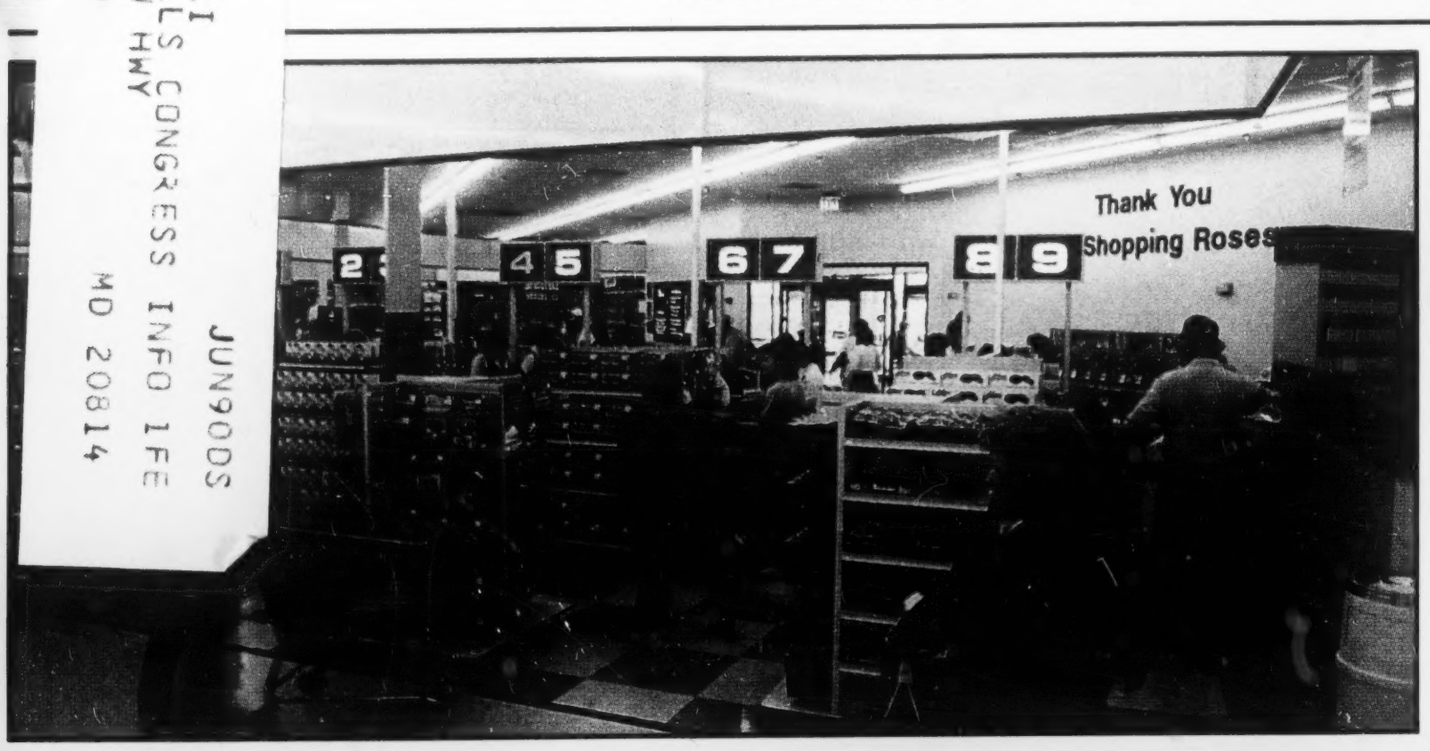

Rose's large prototype (above) features new color scheme and high-density checkout area. At opening (right), chairman Lucius Harvin gave $20 bills to employees who could recite chain's mission statement. (DSN photos)

Rose's Eyes Key To Higher Sales

By Mary Ellen Kelly

WALDORF, Md. — If early results from Rose's new downsized prototype store in Wake Forest, N.C., are any indicator, the full-sized unit opened here last month—and as many as 35 others slated to open in 1990—might alleviate the discounter's ailing sales and profits.

Rose's attention to key "focus" departments in the 45,500-square-foot prototype it unveiled this past summer (see *DSN*, Sept. 4, 1989) helped boost the average customer receipt 20 percent above the chain average.

Management hopes the full-size prototype, which opened Sept. 27 in Waldorf, Md., a Washington, D.C., suburb, will also be among the chain's sales volume leaders, despite relatively keener competition in the Waldorf area.

The 54,000-square-foot prototype—big brother to the downsized unit that opened in Wake Forest, N.C.—confronts full-line discount stores operated by Ames, Zayre and K mart. Specialty operators like F&M, a deep discount drug store, Circuit City, Kiddie City, Sears Outlet Store, and numerous others also surround the new Rose's store.

How well the prototype weathers this storm of competition will help gauge its likely powers when confronted with Wal-Mart, which operates in a great number of Rose's markets.

(Continued on page 16)

From Z to A: Zayre Converts to Ames

Ames Outfits 254 Former Zayre Units With New Names, Technology

By Peter Hisey

ROCKY HILL, Conn. — The full consolidation of Ames and Zayre operations will move a step closer on Oct. 26 when all but 61 Zayre store signs will come down to be replaced by the Ames insignia. Altogether, 254 locations will change names.

The changes are more fundamental than a quick name-change. All Zayre stores have been equipped with state-of-the-art computerized cash registers and backroom computers which will link the locations to headquarters.

All former Zayre personnel have been retrained in Ames operations, the stores themselves have been revamped with new fixtures and lighting, and goods have been reticketed and repriced to match Ames standards.

Additionally, new merchandising, inventory, operating and financial systems have been installed.

According to Peter Hollis, president and ceo of Ames, this step is merely the public acknowledgment of a process that has consumed the company since the buyout a year ago.

Hollis toured major financial centers in late September,

Ames president Peter Hollis forecasts a profitable second half after completing the conversion process. (DSN photo)

raising $100 million in a convertible debenture offering to retire higher-interest debt and to pay for the changes.

During meetings with potential investors, he noted that while the company posted a loss for the first half of fiscal 1990, the reduction of redundant expenses, the lowering of interest expense related to the Zayre acquisition, and completion of conversions should make the second half profitable.

Comparable store sales

(Continued on page 174)

Rabbit Stars in Target Holiday Promo

MINNEAPOLIS — A Velveteen Rabbit plush toy, patterned after a childhood story book figure of the same name, will be the central theme of Target's Christmas promotion for 1989.

The promotion should break in all 401 Target stores the Sunday before Thanksgiving, said John Pellegrene, senior vice president for marketing.

The Christmas promotion takes its cue from the classic children's tale, "The Velveteen Rabbit," written by Margery Williams and published in 1922.

Stars in the lineup of some 50 licensed products in the Christmas promotion will be two sizes of Velveteen Rabbits peeking out of Christmas stockings. Target will offer them for $10 and $5, the same prices as last year's Christmas plush, Tweaks, which was a mouse whose ears squeaked when squeezed.

The line also features special Random House editions of the book, in hard and soft cover and board for infants, videotapes of "The Velveteen Rabbit," featuring the narration of Meryl Streep and the lighted-hearted piano "noodling" of George Winston (who plays the piano in Peanuts TV features), cassette tapes, and compact disks of a special song commissioned around the main message of the tale, "Love Makes You Real."

In addition, Target will offer tree ornaments, mugs, stationery, sleepwear, bath towels, sheet sets and matching comforters, maternity clothes, infants accessories and apparel, potpourri and music boxes, all based on the rabbit theme, Pellegrene said.

Vocalist Amy Grant sings theme song for Velveteen Rabbit promo.

This is the first time Target has developed a product line around its Christmas plush, Pellegrene said. In 1988, Target took the first tentative step, offering an activity book to go with its Christmas plush, Tweaks.

"This year's Christmas promotion will offer high-quality, beautifully designed products related the Velveteen Rabbit story—products you can't find anywhere else," Pellegrene said in a release.

The licenser is Rabbit Ears, a Los Angeles production company that produces video and cassette tapes of Hollywood stars reading children's classics.

In hard cover, the book will sell for $9.99 and $4.99 in soft cover. The board edition will be priced at $2.99.

Compact disks and cassettes will be priced at $9.99 apiece, Pellegrene said, while a combined offer of a video and the hard-cover edition will be priced at $12.99.

The genesis of the Velveteen Rabbit promotion was an animated walk-through exhibit that Pellegrene developed when he headed promotion for Dayton Hudson, parent of Target.

(Continued on page 174)

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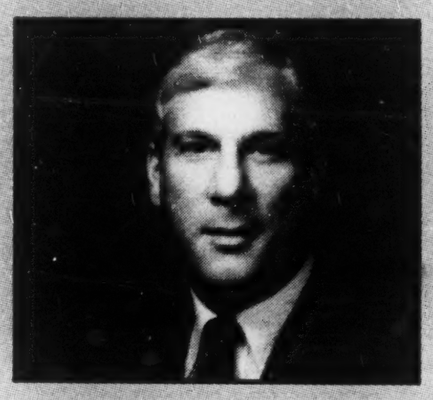
MARKETWATCH

The Last Hurrah for Crazy Eddie

NEW YORK — Crazy Eddie, crushed beneath a heavy debt load, has given up its reorganization effort and expects to file a plan of liquidation. The end of the chain generally credited with introducing discounting to the consumer electronics industry comes only weeks after its founder, Eddie Antar, was charged in SEC filings with stock fraud. Crazy Eddie reported in late May that its liabilities outweighed its assets by over $26 million, and two rounds of store closings haven't helped. A company statement said that "a reorganization [is] not feasible." The liquidation plan won't include distributions to stockholders.

Kasen Named President of Best Products



NEW YORK — Adler & Shaykin has named Stewart M. Kasen as president and chief operating officer of Best Products, the 194-store cataloger acquired in 1988 by the New York-based investment firm. He had been president of Emporium Capwell, a division of Carter Hawley Hale.

Whitlock Auto Hangs Out For Sale Sign

ATLANTA — Ward White PLC. Boots Co., the new British owners of Whitlock Auto, the nation's seventh largest auto chain, has retained First Boston, a New York investment banker, to find buyers for the 113-unit Whitlock and its subsidiary chains—Rose Auto, with 81 stores, and R&S Strauss, with 73. Bid invitations went out this month, but Ward White refused to name potential buyers or disclose expected sale prices for the three chains.

Ward Names Pond Sr. VP of Marketing

CHICAGO — Montgomery Ward has named Dale Pond as executive senior vice president, marketing, replacing John Daynard, who has retired. Pond, who joined Ward from Payless Cashways, will direct all corporate advertising and direct marketing programs, and will become a member of Ward's executive committee.

Lionel Rejects Takeover Offer

NEW YORK — Lionel Corp.'s board of directors has rejected a $150 million buyout offer from Robert Toussie and his New York investment partners. Moreover, the board slammed the door on any negotiations with Toussie. Lionel operates the nation's fourth largest toy specialty chain, Kiddie City. It still owns the Lionel electric train name but licenses it to others for production. At presstime, Toussie hadn't responded to Lionel's rejection.

USV Reaches Out Interactively to Canada

HOUSTON — U.S. Videotel (USV) plans to provide at least 50 of its interactive computer shopping and information services to ALEX, the Canadian videotex gateway operated by Bell Canada. ALEX is now available in Montreal and is to be expanded into Toronto next year. USV's new subsidiary, Canadian VideoNet, will also market goods and services from Canadian firms to the United States marketplace throughout USV's videotex network currently available in Houston but due to be expanded to three to four other cities annually. In Houston, USV operates Southwestern Bell Telephone's SourceLine gateway.

Nichols Obtains $7.5M Credit Line

NEW YORK — S.E. Nichols has lined up a $7.5 million line of credit backed by its inventory. Subject to final due diligence approval, the credit will be in effect by late October. It would expire next June 30. Nichols operates 30 stores in New York and Pennsylvania.

Lechmere Cuts Back in Southeast

WOBURN, Mass. — Lechmere will close eight of its 10 Southeast stores the day before Christmas because the units failed to meet the chain's expectations. Chairman and chief executive officer C. George Scala said Lechmere would "spend our available expansion capital where it will be most productive. Right now that is in the Northeast [where Lechmere has 18 stores]."

FOR THE RECORD

Robert Miles was the first general merchandise manager of The Wholesale Club, the Indianapolis-based membership warehouse chain. An article in *DSN's* Sept. 4 issue incorrectly identified him as a co-founder.

Handicapped Worker Bill Progresses

Discount Chains Face Higher Renovation Expenditures

By Deane Evans

WASHINGTON — Anti-discrimination legislation designed to protect the 43 million disabled Americans is on a fast track on Capitol Hill. If it passes Congress as expected, discount chains will face costly, federally-mandated store renovations for handicapped employees and customers.

The bill would require employers to provide accommodations for handicapped workers (e.g., wheelchair ramps and special equipment). Moreover, the measure contains a separate "public accommodations" provision which would force retail stores and other businesses open to the public to make "reasonable" structural changes to provide access for disabled customers.

The legislation would apply to a variety of citizens from the blind to those with AIDS, however, it would not extend to those suffering from drug-induced conditions, compulsive gambling and kleptomania.

If the bill is enacted, retailers could face expenditures of $2,000 or $3,000 to modify restrooms alone, according to Sen. Orrin Hatch, R-Utah, sponsor of an unsuccessful amendment to offer tax credits to affected businesses. Hatch also warned that operators who fail to provide required modifications could be fined up to $50,000 for a first infraction and as much as $100,000 for subsequent violations.

If passed, the bill would have particular impact on discounters undertaking "major structural alterations" to existing stores or building new structures. Thirty months after enactment, the legislation would require such facilities to ensure that "the path of travel" to restrooms, drinking fountains, telephones, etc., is "readily accessible and usable" by disabled individuals.

For example, new and renovated structures with more than two stories or more than 3,000 square feet per floor would require elevators if needed to provide access for the handicapped.

In addition to mandating physical access for the handicapped, the measure also calls for other employer action for disabled workers, including:

- Restructured job duties or responsibilities;
- Part-time or modified work schedules;
- Modifications of existing equipment or purchase of new equipment;
- Changes in worker examinations, training materials and personnel policy;
- Provision of "readers and interpreters," if necessary.

The bar on employment discrimination against handicapped workers would be phased in after a two-year delay. During the initial phase-in period, the law would apply to employers with 25 or more workers. The exemption would be reduced to 15 or more workers after the first two years of enforcement. "Public accommodation" provisions would go into effect 18 months after enactment.

McD's Eases Toys 'R' Us' Entry in Japanese Market

PARAMUS, N.J. — Toys "R" Us is sailing into the Land of the Rising Sun on the back of a Big Mac. In an end run around Japan's onerous distribution system, TRU has formed a joint venture with the Japanese subsidiary of McDonald's to open four or five stores in the next two years.

To ease its own entry into the Japanese market, McDonald's formed a 50-50 joint venture in 1971 with Dan Fujita, founder of Fujita & Co., a Japanese trading company, to establish McDonald's Company (Japan) Ltd.

TRU will own 80 percent of the joint venture, while McDonald's of Japan will hold the balance of 20 percent.

McDonald's of Japan, which already operates more than 675 restaurants with annual sales of $1.24 billion, will open additional units at the toy store sites.

In announcing the agreement, TRU chairman and chief executive officer Charles Lazarus said, "we are looking forward to . . . providing the Japanese consumers with the broad product selection and low prices that Toys "R" Us customers throughout the United States, Canada, Europe and Southeast Asia presently enjoy."

For his part, Fujita said in the release that, "we view our partnership with Toys "R" Us as yet another way to introduce the Japanese customer to a retailing concept that has revolutionized an industry internationally."

TRU launched its international division in 1984 and now operates 74 stores: 27 in Canada; 23 in Great Britain; 13 in West Germany; five in France; two each in Singapore and Malaysia; and one each in Hong Kong and Taiwan.

TRU operates 404 domestic toy stores, along with 137 Kids "R" Us children's apparel stores. TRU sales last year totaled $4 billion.

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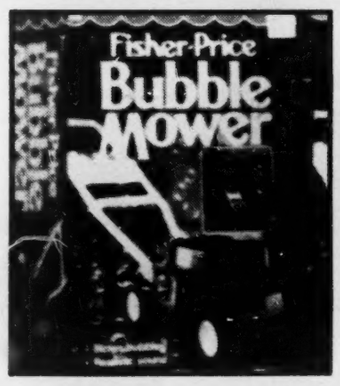

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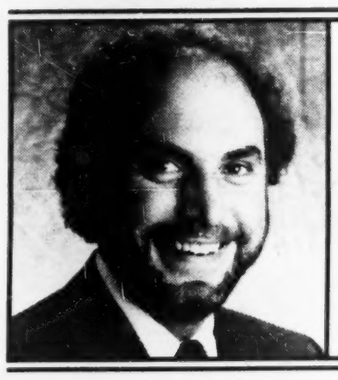
EDITORIAL

New Prototypes Have Much in Common

During the past several months, a plethora of prototype stores have been unveiled by many of the nation's leading retailers.

They include: Wal-Mart's so-called "Vendor Store," Janesville, Wis., the most highly publicized new store to open in years; Target's new P-88 in Eagan, Minn.; Sears' new power formats including Kids & More, Merrillville, Ill., and Homelife, Madison, Wis.; and Twin Valu, Cuyahoga Falls, Ohio, ShopKo's hypermarket concept.



TONY LISANTI
Editor

In addition, K mart quietly opened its newest test store in Oak Park, Ill., that boasts the look of the 1990s. And most recently (see story, page 1), Rose's unveiled its newest prototype store in Waldorf, Md. Even the department store segment produced its hottest new store in years with the debut of A&S in Manhattan, near Macy's flagship store at Herald Square.

Wow. The architects and designers have been busy!

The central theme among all these new stores has been a more upscale look designed by and for the customer. Said Rose's chairman Lucius Harvin about his newest prototype, "This is the store our customers asked us to build."

Certainly, that's the way it should be—a store that is designed according to customer needs, not the whim of a designer. A store that is convenient, easy, and fun to shop. A store that is functional, not merely a maze of expensive fixturing and lighting that provides a showcase for store design, but ends up being a nightmare for customers.

There are several elements that are consistent among every new store that has opened during the past several months. And these elements will be dominant through the 1990s. They include:

- Wider, less cluttered, aisles including the racetrack;
- Softer more contemporary color schemes;
- Better lighting and flooring, including more carpeting;
- More dominant graphics, and signage that reflects customers' lifestyles, emphasizes brand names, identifies departments and directs shoppers;
- More "power" product displays;
- More emphasis on check-out merchandising.

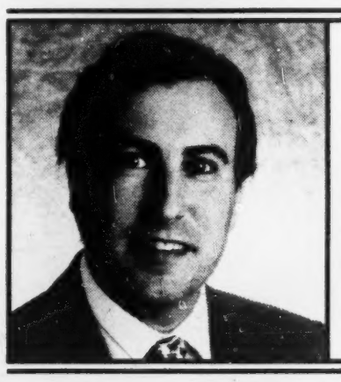
The purpose of a store is not to win design awards, but to win customers. And the new wave of prototypes have produced a lot of winners.

BUYERS & SELLERS

Secret Meetings Interfere With Building Trust

Encouraging closer ties between all retailers and manufacturers has been one of the key objectives of this column. I've attempted to keep our readers up-to-date on the latest developments in this often love-hate relationship between the people who make the goods and the people who sell them.

But now, it seems from recent articles in the *Wall Street Journal* and *Investors Daily*, a handful of top executives of competing retailers and manufacturers may have overstepped the bounds of common sense, if not law, as one of those published reports suggested.



DON LONGO
Exec Editor

According to the reports, these retailers and suppliers met at least three times during the past few years, under the aegis of Dave Pinto, publisher of trade publications for the drug and discount industry. Allegedly they discussed environmental safety, legislative issues, drug abuse and other matters of mutual concern. Unlike other trade association-, publication- or consulting firm-sponsored industry events that bring retailers and suppliers together, these meetings were open to only a select few giant firms, and their activities were blacked out to both the general and business press. *Investors Daily* reported that "such loosely defined organizations may be frowned upon by federal regulators involved in antitrust enforcement."

I have to admit that it's pretty hard to resist the temptation to zing a competitor like Pinto. However, it must be noted that neither the *Journal* nor the *Investors Daily* could substantiate any wrongdoing by any of the participants.

DSN's follow-up of the matter revealed that meetings did take place. A K mart spokesman said chairman Joe Antonini attended the meeting "where the politician spoke"—presumably that was last October in Dallas when Ron Ziegler, Nixon's former press officer and now president of the drug store chain trade association addressed the group. To their credit, Sears' ceo Michael Bozic and Target's ceo Bob Ulrich were invited but declined to attend. Other retailers and suppliers mentioned in the articles either declined comment or did not return phone calls. No one would speak on the record, but the prevailing mood of executives from companies not invited to the meetings was anger at being excluded while the big boys parleyed.

I can only suggest that the next time leading retailers and consumer goods marketers want to get together to discuss pressing issues, they publicize their agenda, open the meeting to *all* interested parties—big and small firms alike—and invite press scrutiny.

Secret meetings have no place in the building of successful and trusting partnerships between retailers and suppliers.

WASHINGTON REPORT

Shrinking Labor Pool Demands Federal Action

Washington is the last place for discount chains to look for help. With Congress pushing costly new labor legislation, tax collectors threatening to enforce controversial "Section 89" rules, and the Supreme Court winking at resale price maintenance conspiracies, there's good reason for discounters to suffer from "Washophobia."

It's time the industry should begin expecting and demanding more from Washington.

KEN RANKIN

For starters, how about some federal help to deal with the industry's deepening labor shortage?

Despite the influx of women into the labor market, discounters and other retailers are finding it increasingly difficult to staff existing stores. Where will the industry find the people to run all the new stores on the drawing boards for the 1990s?

According to the latest employment forecast from the Bureau of Labor Statistics, nearly 4.3 million Americans were employed as retail sales workers in 1986. But by the year 2000, the bureau expects that the demand for store employees will increase by 32 percent.

That comes to 1,345,000 people—on top of the millions who will have to be replaced due to turnover and attrition! In fact, the demand for retail sales workers will increase more than 50 percent faster than the nation's overall labor pool!

Not all retailers will encounter recruiting problems during the coming decade, however. According to BLS forecasters, "applicants seeking higher paying jobs selling expensive merchandise will face keen competition." While that may be a comforting prospect for chains like Neiman-Marcus or Nordstroms, the openings at Bradlees, Wal-Mart and other discount chains figure to be "much more numerous" than the applicants qualified for those jobs.

What can government do about the worsening labor crunch?

For one thing, Washington should stop threatening to impose costly new labor and payroll requirements on business. Government mandated pay increases and fringe benefits reduce the flexibility of chains to design new, more competitive employee compensation packages.

For another, Washington should unshackle millions of senior citizens anxious to return to the work force but unable to do so because of Social Security restrictions. Many older Americans want to work, the economy needs these people, and the discount industry should speak up on their behalf.

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TOP BRANDS

Part 1: Store Manager Survey

Brand Growth Accelerates Slightly

National Label Increases Confined to Five Merchandise Categories

By Laura Liebeck
Nationwide DSN Report

The growth rate of brand name goods at discount stores increased slightly this year, after two years of holding steady.

However, when store managers were asked about the growth of brand names in 17 specific merchandise categories, only five categories revealed increases in the number of name brands stocked on discount store shelves.

In addition, the percent of managers reporting a rise in the number of name brands carried declined dramatically in many departments.

Overall, about 42 percent of store managers said the number of national brands carried in their stores increased this year from the previous year, according to the Top Brands Survey, an exclusive poll sponsored by *DSN* and conducted by the Chicago-based market research firm Leo J. Shapiro & Associates.

A year ago, only 39 percent of store managers said brand name growth grew in their stores.

Half the managers polled this year said the number of national brands stayed equal with the ones last year.

The Top Brands Survey was conducted in June. It polled 307 discount department store managers on a variety of issues concerning brand name products in 17 merchandise categories.

Store managers from conventional as well as upscale discount store chains were asked several key questions:

- What are their best performing brands?;
- To what do they attribute the success of their top brands?;
- What brand would they like to add to their respective departments?

They were also asked about brand name growth in the past year, to forecast sales increases for this year and to name the department or departments that have experienced brand name growth since last year.

The poll produced overall brand rankings of manager preferences in each category. The survey results were also broken down by retail outlet—conventional or upscale—region of the country, and with a specific breakout for managers of the four largest discount chains—K mart, Wal-Mart, Ames/Zayre and Target.

Generally, store managers named fewer brands this year than they did last year. However, when they were specifically asked if their stores carried more, less or the same number of national brands this year compared to a year ago, 42 percent of the respondents said that they stock more national brands.

More specifically, managers of upscale discount chains like Target, Bradlees and Caldor reported more brand name growth than do conventional discounters—11 of 17 categories compared to six.

And almost nine of 10 K mart and Ames/Zayre managers said brand name products are on the rise in their stores. Three-quarters of Target managers said brands are on the rise and nearly as many Wal-Mart managers said the same.

Health and beauty aids, the No. 1 category on the brand growth list overall this year, was cited most often by conventional discounters.

Upscale discounters, however, cited housewares as the fastest growing brand category. Last year, housewares was the overall No. 1 growth area, but this year it dropped to No. 3.

On the whole, store managers appear satisfied with the brand selection in most of the 17 categories. This is particularly true, it seems, in photo and camera, stationery, food, candy and snacks, and toys.

Very few managers reported brand additions in these four categories. And based on survey results, managers offered no conclusive evidence that they want or need more brands.

In total, *DSN* surveyed managers on brand activity in personal care appliances, health & beauty aids, ladies', men's, infants', toddlers', children's apparel, hardware, consumer electronics, household cleaners and chemicals, automotives, cosmetics, sporting goods, domestics, toys, food, candy and snacks, stationery, and photo and camera, for this year's survey.

Of the 17 broad categories surveyed only ladies' apparel, hardware, consumer electronics, automotives, and domestics were mentioned by store managers as departments featuring more name brands this year than a year ago.

Three categories, household cleaners and chemicals, toys, and photo and camera received the same number of responses this year as they did a year ago.

All of the remaining nine product categories recorded fewer mentions as recording increases in brand name goods.

Last year's No. 2 finisher, health & beauty aids, and No. 4 placer, ladies' apparel, emerged as the two merchandise categories showing the greatest percentage of managers reporting brand growth from the previous year, and tied for first place on the current survey. Both received fewer mentions this year than last year, however.

Housewares, last year's No. 1 category for brand growth, fell back to third this year in a tie with men's apparel, which was No. 3 last year, and hardware, which was No. 6.

Consumer electronics and automotives were the only two merchandise categories to move significantly higher on the brand growth list. Each moved up four spaces on the list: CE to sixth and automotives to eighth.

Although the percentage of managers who said that they expect brand increases in CE and automotives to increase was small, the fact that it rose is significant.

Apparently, store managers expect the competitive arena for CE and automotives to continue. The pressure to present exciting departments stocked with the brands consumers want should continue to challenge both the manufacturers and retailers to sharpen their merchandising skills.

According to the survey results, that may not be true in sporting goods.

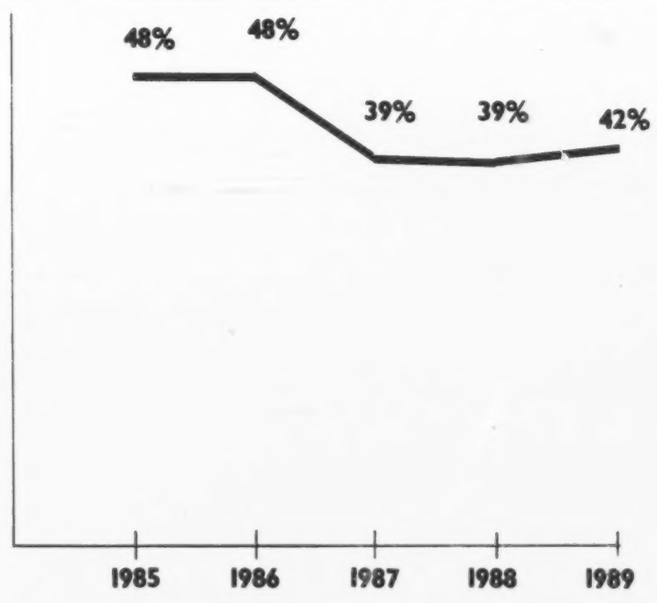
Sporting goods recorded the biggest decline on the brands growth list, falling from sixth place to 11th. Despite that five-notch fall, sporting goods was second to housewares as the category with the biggest decline in the number of managers reporting brand growth over the past year.

In sporting goods, as in housewares, it appears that

(Continued on page 58)

National Brand Name Growth At Discounters

Percent of store managers reporting increase in number of name brands carried in their store:



Source: Discount Store News/*Leo. J. Shapiro & Assoc.*

Where Name Brands Are Growing

Percent of store managers reporting increase in number of name brands carried by department:

Department	1989	1988	1987	1986	1985
Health & Beauty Aids	17%	21%	21%	17%	14%
Ladies' Apparel	17	13	10	16	18
Housewares	14	23	24	20	22
Men's Apparel	14	15	11	14	16
Hardware	14	9	8	11	9
Consumer Electronics	8	5	8	9	6
Household Chemicals	7	7	NA	5	3
Automotives	5	4	6	3	3
Cosmetics	4	7	10	6	9
Children's Apparel	4	6	3	3	5
Sporting Goods	3	10	11	9	5
Domestics	3	2	3	4	3
Toys	2	2	4	4	2
Food, Candy, Snacks	1	5	2	5	2
Stationery	1	2	NA	NA	NA
Photo, Camera	1	1	1	2	3
Personal Care Appliances	1	NA	NA	NA	NA

NA—not available *Source:* Discount Store News/*Leo J. Shapiro & Assoc.*

National Survey Reveals Store Manager's Top Performing Brands

Automotives ***153***
Quaker State
Pennzoil
Valvoline

Consumer Electronics ... ***117***
Emerson
General Electric
Panasonic

Cosmetics ***109***
Maybelline
Cover Girl
Revlon

Domestics ***111***
Cannon
Pepperell
J.P. Stevens

Food, Candy, Snacks ***141***
Hershey's
Mars
Frito-Lay

Hardware ***157***
Stanley
Black & Decker
General Electric

Health & Beauty Aids ... ***145***
Crest
Colgate
Johnson & Johnson

Household Cleaners ***115***
Tide
Clorox
Windex

Infants', Toddlers', Children's Apparel ***90***
Lee
Curity
Fisher-Price

Ladies' Apparel ***89***
Gitano
Lee
Jaclyn Smith

Men's Apparel ***92***
Lee
Wrangler
Fruit of the Loom

Personal Care ***118***
Conair
Clairol
Vidal Sassoon

Photo, Camera ***120***
Kodak
Polaroid
Canon

Sporting Goods ***149***
Wilson
Coleman
Spalding

Stationery ***147***
Mead
Bic
American Greetings

Toys ***158***
Fisher-Price
Mattel
Playskool

Store managers nationwide named their best performing brands in 17 merchandise categories, in a poll conducted for Discount Store News by Leo J. Shapiro & Associates.

TOP BRANDS

PART I

Ads, Performance Key in Brand Preference

Nationwide DSN Report

Advertising, brand recognition and product performance are the three key ingredients to the success of a brand name item at retail, according to responses from store managers polled for *DSN*'s current Top Brands Survey.

Price, the No. 4 consideration, is waning dramatically in importance when it comes to the performance of top name brands, according to store managers.

Apparently, the quality of a product, coupled with a strong advertising program that fosters brand recognition, is more valuable at retail than at price alone.

These are interesting findings considering that the discount store industry depends upon quality, name brand goods at the right price. It also shows that discounters are becoming more successful at changing customer perception that they are sources of low quality, cheap goods.

This year, fewer managers named price as an attribute of a product's performance than they did last year. In fact, just one-fifth of the managers surveyed said that price is an attribute of their best performing brands, down from one-fourth of managers a year ago.

It is important to note, that however much price declined as an attribute of a product's performance, it is still a big consideration. And price is still judged to be a more important factor than variety, promotions, product presentation, sales and product features.

Attributes of Best Performing Brands

	Ads	Product Perform.	Brand Recog.	Price	Variety	Promos	Prod. Present.	Sales	Product Features
Average All Departments	35%	27%	32%	16%	4%	4%	3%	4%	1%
Household Cleaners & Chemicals	49	14	31	13	3	4	3	7	1
Housewares	31	39	36	14	6	5	2	3	1
Hardware	20	44	32	10	3	5	2	1	3
Domestics	22	28	41	21	4	6	3	1	—
Automotives	40	25	32	20	3	5	1	5	1
Stationery	21	13	21	21	9	3	4	5	2
Sporting Goods	27	37	31	15	4	3	2	3	—
Photo & Camera	49	28	45	9	1	3	1	3	—
Toys	39	39	30	6	6	4	—	4	—
Consumer Electronics	35	26	30	23	2	3	1	2	1
Food, Candy & Snacks	33	21	35	10	2	1	3	12	—
Men's Apparel	29	24	41	26	3	3	3	5	1
Ladies' Apparel	40	22	39	15	3	6	2	3	—
Children's Apparel	25	32	29	25	7	3	5	—	3
Personal Care Appliances	43	25	23	19	4	5	4	5	2
Health & Beauty Aids	50	24	29	23	1	9	5	7	—
Cosmetics	48	15	25	15	10	5	15	4	1

Numbers exceed 100% due to multiple responses. *Source: Discount Store News/Leo J. Shapiro & Assoc.*

Advertising, by the vendor or retailer, remains the No. 1 reason a particular brand sells well at retail.

It may even begin sharing its top position with brand recognition, actually one of its by-products.

In fact, advertising is an even greater influence over the performance of a product than it was a year ago.

On the current Top Brands Survey, store managers said advertising is the most dominant reason a brand meets with retail success for 10 of the 17 product categories polled.

Last year, store managers said advertising was the reason for the success of nine brands.

Brand recognition was cited as the No. 1 reason for the success of nine products, up from five a year ago.

Product performance was mentioned as the main attribute of eight product categories that performed well at retail, up from two last year.

Price was the main factor for just one product category this year—stationery—and even that was not a clear victory. Advertising, brand recognition and price tied as the reasons stationery brands are successful.

Overall, more than one-third of all store managers surveyed attributed the success of all their top performing brands to advertising, slightly more than in 1988.

Brand recognition, the No. 2 attribute, was mentioned slightly less often than advertising. It, too, recorded a small rise from last year.

Product performance, in third place, was mentioned as an attribute of top brands by a little more than one-fourth of the managers polled, down slightly from last year.

Regardless of the overall characteristics of a best performing brand, the success of each product category produced widely varying results.

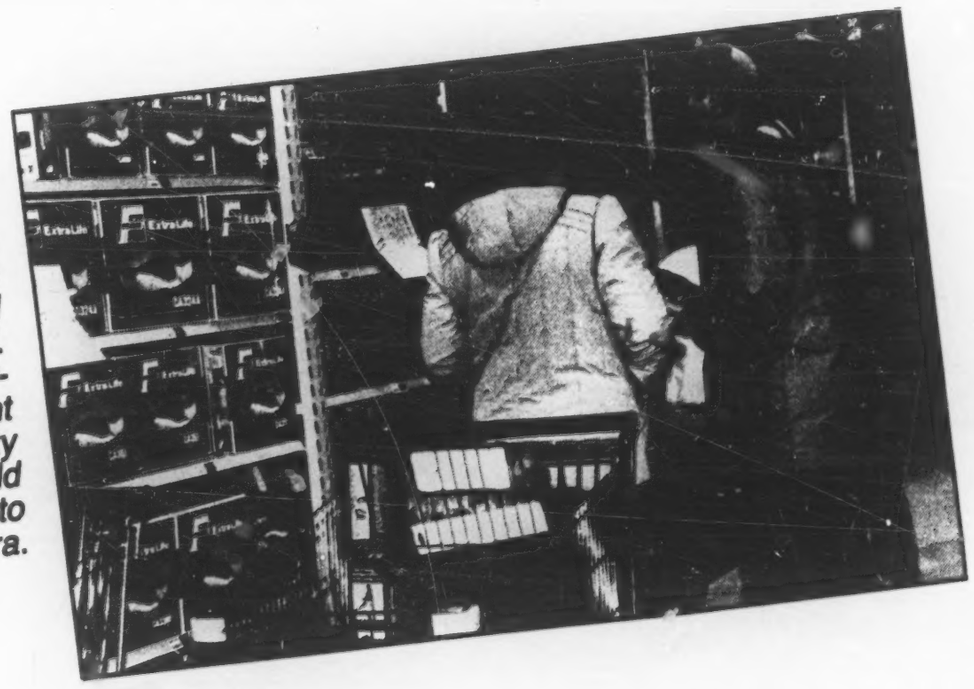
For example, advertising was mentioned by half the store managers for the success of branded goods in health & beauty aids, the highest mention rate for any product category.

Product performance was the No. 1 reason hardware items sell well at retail, the highest response rate for this brand attribute.

Brand recognition was cited as the main attribute for domestics and men's apparel.

In addition to stationery, price was the biggest factor in determining top performing brands in men's apparel.

Brand recognition, product performance and advertising are equal components to brand success in the three apparel categories with brand recognition having a slight edge over the other two. (DSN photos)



Advertising is the key attribute to the success of hard lines brands. Product performance is second and brand recognition is third. Advertising is particularly important in health & beauty aids, household cleaners and photo and camera.

Brand Name Growth Accelerates Slightly

(Continued from page 57)

managers are relatively satisfied with their current brand mix and don't look for any major brand changes. It could also mean that changes in the current brand mix could be at the expense of existing labels.

Overall, each merchandise category remained in almost the same place on the brand growth list as a year ago. Therefore, store managers expect the relative increases in brands to continue on the same path.

However, the reshuffling of the top six positions on the brand growth list is the exception.

Obviously, store managers expect the competitive arena for these categories—health & beauty aids, ladies' apparel, housewares, men's apparel, hardware and consumer electronics—to continue, pressuring both retailers and manufacturers to refine their offerings.

This is particularly true in ladies' and men's apparel where discounters have been working diligently to upgrade their apparel selections with the brand names consumers want and trust along with establishing brand names of their own that accomplish the same task. The best example of this is K mart's Jaclyn Smith brand of ladies' apparel.

Jaclyn Smith was among the top 10 performing brands in ladies' apparel for the second consecutive year. It outperformed such popular national name brands as Chic, Levi's and Playtex.

In addition, Bobbie Brooks, an exclusive line of ladies' apparel at Wal-Mart, was on the top 10 list in the category.

TOP BRANDS
APPAREL

WOMEN'S/MEN'S/CHILDREN'S/HOSIERY/JEWELRY & ACCESSORIES/UNDERWEAR/INTIMATE APPAREL

Gitano, Lee Pack One-Two Punch in Ladies'

Nationwide DSN Report

Gitano once again was the No. 1 label in ladies apparel, but with a slightly diminished lead over second-place Lee on *DSN's* Top Brands survey, according to responses from store managers.

Despite its weakened hold on the top spot, Gitano did garner more responses this year than last year from store managers as a top performing brand. And so did Lee.

This year, just five percentage points separate the two jeans labels from each other, down two percentage points from the 1988 survey.

Gitano's position as the top performing brand in ladies apparel held firm among all discounters surveyed. At upscale discounters, Gitano posted a sizable jump from last year.

But Gitano's hold on the No. 1 spot did not translate into across-the-board victories among discounters in the Midwest and West and at K mart, Wal-Mart and Target. The top spot didn't go to Lee, either. Instead, the top finishers varied by region and retailer.

Upscalers Embrace Gitano

Gitano's strength at upscale discounters was the company's greatest improvement from the 1988 survey. In years past, Gitano had trouble gaining a foothold at upscale discounters. No more.

In the 1988 survey, Lee led Gitano by one percentage point at upscale discounters. This year, Gitano surged 15 percentage points ahead.

Gitano lost some ground at conventional discount stores, where Lee closed the gap to just two percentage points.

Overall, nearly one-third of all store managers surveyed named Gitano as their best performing brand, up one percentage point from a year ago.

Second-place Lee garnered 25 percent of all the responses, up three percentage points from the 1988 survey.

After Gitano and Lee, the top 10 brands in ladies' apparel looked essentially the same as last year. There were no additions or subtractions, only a slight reshuffling.

This year, like last year, Jaclyn Smith was third and Chic was fourth. Bobbie Brooks shared fifth place with Levi's, which moved up from eighth on the 1988 survey. Playtex came in seventh and Wrangler, eighth, a reversal from last year's form. Fruit of the Loom and Cape Cod also switched positions on the current survey. This time, Fruit of the Loom was ninth, and Cape Cod, 10th.

Cape Cod was the only non-jeans sportswear label that is not an exclusive brand to make the Top Brands list in ladies' apparel.

Again, the 1989 survey was dominated by jeans labels (five) and foundations (two).

Wrangler, dominant in the men's department but not in ladies', once again made the Top 10 list in ladies' apparel. However, Wrangler has been losing ground among discounters for the past few years, according to results of the Top Brands survey.

In 1987, one-fifth of all store managers named Wrangler as a top performing brand. Last year, Wrangler was named by fewer than one in 10 managers and this year by just one in 20.

Fruit of the Loom gained ground from last year, as did Playtex and Levi's.

In fact, when store managers were asked what brands they would add to their inventory in ladies apparel, Levi's was the brand most frequently mentioned.

Lee improved its standing with store managers at conventional discounters in this year's survey, and narrowed the gap between it and Gitano, the overall top performer. (DSN photo)

Ladies': Top Brands Vary by Type of Outlet

	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	**1989**	**1988**	**1989**	**1988**	**1989**	**1988**
Gitano	30%	29%	27%	29%	42%	30%
Lee	25	22	25	20	27	31
Jaclyn Smith	11	11	14	13	—	—
Chic	10	9	10	7	12	20
Bobbie Brooks	7	8	9	9	—	—
Levi's	7	4	8	3	2	8
Playtex	6	4	5	3	9	12
Wrangler	5	7	4	7	10	4
Fruit of the Loom	4	2	4	1	7	6
Cape Cod	2	3	2	3	4	5

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Levi's products are not sold directly to discount chains, but rather through diverters.

Although both Jaclyn Smith and Bobbie Brooks are not national brands, they continue to make the Top 10 list.

Jaclyn Smith is a private label brand developed and sold exclusively by K mart. And Bobbie Brooks is an exclusive label at Wal-Mart. The continued success of these two labels on *DSN's* Top Brands survey illustrates the strength of private label at a national chain.

Both Jaclyn Smith and Bobbie Brooks maintained their 1988 rankings on the Top Brands survey, third and fifth, respectively, with approximately the same rate of mentions as a year ago and with a greater response than most national brands.

Both K mart and Wal-Mart gave their exclusive brands top billing as their best performing brands by far.

Six out of 10 Wal-Mart managers named Bobbie Brooks as their best selling ladies' apparel label followed by Gitano with five out of 10 mentions.

At K mart, Jaclyn Smith was named as the top performing brand by almost six out of 10 managers followed by Lee and Playtex with fewer than two of 10 mentions.

Ladies': How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Gitano	12%	53%	80%	36%
Lee	15	3	32	42
Jaclyn Smith	57	—	—	—
Chic	2	—	2	39
Bobbie Brooks	—	61	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Gitano was the No. 1 apparel brand at only Ames/Zayre. Eight out of 10 store managers there named Gitano as their best performing brand, followed by Lee, Cape Cod and Hanes.

Lee was the top performing brand at Target, with four of 10 store managers naming the jeans label as their best performing brand. Chic jeans, mentioned almost as often as Lee, was second, followed by Gitano.

Regionally, Gitano and Lee were first and second in the Northeast and South. In the North Central states, Lee was first and Gitano was second.

Store managers in the West gave Jaclyn Smith the top spot among brands with nearly three of 10 responses. Obviously, more Western-based K mart managers answered the survey. Gitano came in second to Jaclyn Smith in that region.

Jaclyn Smith apparel was a best performing brand because of the its vigorous advertising schedule and product performance, noted store managers. Brand recognition was listed as a third reason the label performs well.

Overall, store managers attributed advertising, particularly vendor advertising, as the top reason an apparel brand performs well. Brand recognition and product performance were also cited by managers as important considerations in their picks.

Ladies': Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Gitano	37%	31%	33%	15%
Lee	25	19	39	14
Jaclyn Smith	5	9	10	28
Chic	3	11	14	7
Bobbie Brooks	—	14	6	—
Levi's	3	8	4	12
Playtex	5	5	9	2
Wrangler	4	1	12	2
Fruit of the Loom	—	7	4	3
Cape Cod	9	2	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Infants' & Toddlers' Labels Resurface on Top 10

Nationwide DSN Report

After a year's hiatus, infants' and toddlers' wear brands reappeared on the top 10 list with more strength, curtailing the momentum children's labels started last year, according to results of *DSN*'s Top Brands Survey in children's apparel.

The reappearance of infants' brands in the top 10—and with greater strength in the top 20—affirms a long-standing trend among parents to purchase only name brand merchandise for newborns and toddlers.

In fact, store managers reported that a top performer in children's is largely attributed to advertising, brand recognition and product performance, in that order.

On the whole, the 1989 Top Brands list in children's features a better combination of labels from all three children's apparel groups than it did a year ago.

New to the Top 10 this year are Fisher-Price, the top ranked toy label, and Pampers diapers. Fisher-Price produces both infants' and toddlers' wear.

with Spencer's, was again ranked eighth this year but by itself. Spencer's, however, dropped off the top 10 list to 14th on the current survey.

Also exiting the top 10 list this year was Levi's. Last year, Levi's was tied with Garanimals for fifth place. This year Levi's slipped down to 12th place.

Except for the two labels that exited the Top 10 list and the two that were added, this year's survey of top performing children's apparel brands contained the same labels as last year's, albeit in reshuffled form.

All of the labels, including top-ranked Lee, are separated by just a percentage point or two in the rankings and could be easily unseated from their positions in subsequent surveys.

In fact, Curity received more than twice the number of mentions from upscale discounters as a top performing brand than did Lee. And among Wal-Mart managers, Fisher-Price was named as a top performer over Lee by nearly nine to one.

Overall, however, Lee was

Infants', Toddlers', Children's: Top Brands Vary by Type of Outlet

	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	**1989**	**1988**	**1989**	**1988**	**1989**	**1988**
Lee	13%	12%	13%	10%	11%	21%
Curity	11	10	8	7	24	23
Fisher-Price	9	—	7	—	19	—
Health-Tex	7	8	7	7	7	14
OshKosh	6	4	6	5	3	—
Liberty	6	8	7	10	—	—
Fruit of the Loom	5	5	5	4	5	7
Pampers	4	—	5	—	—	—
Garanimals	4	6	4	7	5	2
Garan	4	4	5	3	1	4

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Infants', Toddlers', Children's: How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Lee	2%	5%	27%	17%
Curity	12	18	7	22
Fisher-Price	2	34	—	17
Health-Tex	3	—	2	6
OshKosh	—	—	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Pampers, the top ranked diaper label, reappeared this year after dropping off last year's survey.

Labels such as Spencer's, Gerber, Dr. Denton, Huggies, Carter, and Luvs, all big names in infants' wear, are among the brands that were also named by store managers as top performing brands in children's apparel, but were ranked below the top 10.

Levi's, Wrangler, Hanes, and Gitano are some of the top children's wear names appearing in the top 20.

A total of 24 children's labels were mentioned by store managers as top performers. In addition, the category called "other" received the same number of mentions as Fisher-Price.

But it was Lee that was mentioned most often as the top performing brand in children's wear.

For the second consecutive year, Lee edged out Curity, a popular label in infants' wear, for the No. 1 spot.

Lee maintained a two percentage point lead over Curity, the same as last year. In 1987, Lee and Curity were tied for second behind Fruit of the Loom.

Fruit of the Loom, which was tied for eighth last year

the No. 1 brand, followed by Curity, in second; Fisher-Price, third; Health-Tex, fourth; OshKosh and Liberty tied for fifth; Fruit of the Loom, seventh; and Pampers, Garanimals and Garan tied for eighth.

Lee's best showing was with conventional discounters, coming in five percentage points ahead of Curity.

Upscale discounters, however, gave the first-place spot to Curity. One-fourth of the store managers surveyed named Curity as a top performer followed by Fisher-Price in second and Lee in third. Conventional discounters mentioned Lee most often as a top performing brand making it the clear No. 1 followed by Curity in second and Fisher-Price, Health-Tex and Liberty were tied for third.

Liberty is exclusive to Wal-Mart. Its inclusion on the Top 10 list illustrates the strength of a private label at a national chain.

Health-Tex, last year's No. 3 finisher, fell back one place on the current survey, due largely to a sharp decline at upscale discounters although not at Target.

Target store managers named Health-Tex as a top performer as often in this

year's survey as last year's.

OshKosh, tied for ninth last year, moved up to fifth this year, and improved its standing at both conventional and upscale discounters.

Liberty fell one place in the rankings due to fewer mentions by Wal-Mart managers. However, Liberty was still the No. 1 children's label at Wal-Mart, according to store manager responses.

Fruit of the Loom, the lone underwear label on the top 10, improved its standing at conventional discounters but weakened among upscalers.

Results for Garanimals were exactly opposite to Fruit of the Loom. Although Garanimals fell in the rankings, the decline was not attributable to fewer mentions by managers at the top four retailers. In fact, K mart, Wal-Mart, Ames/Zayre and Target all mentioned Garanimals more often this year than last. Obviously, the decline came from other, unnamed discounters.

Among chains, Garan, maker of the Garanimals label, did best at Wal-Mart, finishing fourth behind Liberty, Fisher-Price and Curity.

Survey responses by K mart managers made Curity the No. 1 brand, followed by Pampers, and Fruit of the Loom and Wrangler finished in a tie for third.

At Ames/Zayre, the top spot went to Lee and Fruit of the Loom was second.

Lee, Curity, Fisher-Price and Fruit of the Loom finished in a four-way tie for top honors at Target.

In the regions, Lee was No. 1 in the South, with more mentions this year than last, followed by Fisher-Price in second and Curity and Liberty tied for third.

Health-Tex was the No. 1 children's apparel brand in the West followed by Curity and Pampers tied for second. Lee was fifth. (Last year Lee wasn't even mentioned as a top performer in the West.)

Curity was the top performer in the North Central states, followed by Lee in second.

OshKosh was first in the Northeast—a dramatic improvement from last year when it was fifth and tied with Health-Tex.

In the current survey, infants' and toddlers' wear brands made inroads against once-dominant children's labels. (DSN photo)

Infants', Toddlers', Children's: Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Lee	18%	16%	11%	5%
Curity	9	10	14	7
Fisher-Price	9	12	10	3
Health-Tex	6	4	9	12
OshKosh	19	2	6	3
Liberty	—	10	6	—
Fruit of the Loom	2	6	6	6
Pampers	1	6	4	7
Garanimals	1	4	7	3
Garan	1	7	4	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Lee Gets a Leg Up on Other Men's Brands

Nationwide DSN Report

Lee strengthened its position as the No. 1 label in men's apparel, widening its lead over Wrangler, which was tied with Fruit of the Loom for the No. 2 spot, according to responses to *DSN's* 1989 Top Brands Survey.

Lee was mentioned as a top performing brand by three out of 10 store managers.

One-fourth of all managers surveyed named Wrangler and Fruit of the Loom as top performers.

For all three popular brands, the survey results reflect a strengthened position from 1988 and a recouping of ground lost since 1987.

Fruit of the Loom, which was ranked No. 1 on the 1987 survey and No.3 last year, lost ground in the West and Northeast and at Ames/Zayre but recorded a major improvement at Target.

Nearly half of all Target managers named Fruit of the Loom as the best performing brand, outscoring Wrangler in second and Lee in third. Levi's was tied with Brittania, its mass market label, for fourth place, according to manager responses.

If the responses to Levi's and Brittania were added together, however, the Levi company would be the No. 1 label at Target.

Men's: Top Brands Vary by Type of Outlet

	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	**1989**	**1988**	**1989**	**1988**	**1989**	**1988**
Lee	29%	24%	29%	22%	29%	37%
Wrangler	25	23	26	25	19	13
Fruit of the Loom	25	22	25	22	23	23
Hanes	16	17	16	15	20	23
Levi's	13	10	13	8	16	19
Dickies	10	11	12	13	—	2
McGregor	7	8	7	8	9	8
Gitano	5	—	3	—	18	—
Manhattan	5	5	5	—	6	7
Brittania	4	—	3	—	9	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Although Lee was the overall top performing brand in men's wear, Fruit of the Loom and Hanes received more mentions from K mart managers. (DSN photo)

Two Newcomers to Top 10

New to the Top Brands list this year are Gitano and Brittania, finishing eighth—tied with Manhattan—and 10th, respectively.

Gitano and Brittania replaced Rustler, Wrangler's mass market label which ranked eighth last year—and Ocean Pacific, ranked 10th.

This year Rustler was 11th and Ocean Pacific was not even mentioned as a top performing brand.

Gitano's thrust into the chart this year—due primarily to its showing at upscale discounters—is undoubtedly due to the brand's appeal among women and the fact that women are, by and large, the apparel purchasers in the family.

Gitano may stage another spurt, with the help of its new advertising campaign that targets family apparel needs with homespun themes, further enhancing the brand's appeal to women.

In fact, almost one-fifth of all managers at upscale discount stores named Gitano as a top performing brand, just one percentage point below Wrangler.

Wrangler, too, is poised to advance on the Top 10 list now that its new campaign has been released. The new campaign was designed to develop Wrangler's penetration in the Northeast and among working class and older customers.

Brittania made the Top 10 list this year in large measure to upscale discounters and at Target in particular.

Overall, the Top Brands Survey in men's apparel, after Lee, Wrangler and Fruit of the Loom, were as follows: Hanes, fourth; Levi's, fifth; Dickies, sixth; McGregor, seventh; Gitano and Manhattan tied for eighth; and Brittania, 10th.

Aside from the two gains and two losses on the men's apparel list, the lineup of the category's Top 10 stayed basically intact.

Notable was the flip-flop of Fruit of the Loom and Hanes and of Levi's and Dickies.

Both Levi's and Dickies are stronger at conventional discounters than they are at upscalers. And Fruit of the Loom performs better at conventional discounters than at upscalers, according to survey responses.

McGregor, ranked seventh last year and on the current survey, held its own with roughly the same number of responses. The same was true for Manhattan.

Supporting McGregor's standing on the charts is the label's high standing at Ames/Zayre. McGregor was the No. 2 brand at Ames/Zayre behind Lee.

Manhattan's standing on the Top 10 chart was largely attributed to the label's strength at Wal-Mart. At Wal-Mart, Manhattan was the No. 5 brand behind first place Wrangler, Fruit of the Loom, Hanes and Dickies.

Whatever the specific brand, store managers reported that to be a top performing brand in the men's apparel department, the label must be recognizable, perform well and be supported with vendor advertising.

In fact, nine out of 10 managers said brand recognition was the main reason Lee sells so well. An equal number of managers attributed the success of Wrangler and Fruit of the Loom to product performance.

Interestingly, when store managers were asked what brand of men's apparel they would add to their mix if they had the chance, Levi's was mentioned most frequently, followed by Wrangler .

Despite its overall No. 1 position on the Top Brands Survey, Lee did not make a clean sweep of all the categories.

Lee was the top performing brand among conventional and upscale discounters, in the Northeast and North Central regions, and at Ames/Zayre. However, Lee weakened in dominance at upscalers and in the West.

Lee strengthened its position among conventional discounters, in the Northeast, South and the North Central states, and at K mart, Wal-Mart and Ames/Zayre.

In fact, Lee's most dramatic improvement occurred among Northeastern managers. Four out of 10 managers named Lee as a best performing brand in the Northeast, compared with three of 10 a year ago.

Although Lee improved in the standings at both K mart and Wal-Mart, Wrangler took top honors at both discount chains.

However, Wrangler's best showing was at Target where more than one-third of the managers said Wrangler was a top performing brand.

Target managers also gave top honors to Fruit of the Loom. Wrangler was No. 2 and Lee and Brittania were tied for third.

At K mart, Wrangler was the top performing brand followed very closely by Fruit of the Loom then Hanes, Lee and Levi.

The top brands at Wal-Mart mirrored those at K mart for the top three spots. Dickies followed in fourth place and Manhattan finished fifth.

Lee was the top brand at Ames/Zayre with McGregor in second, Fruit of the Loom, third, Wrangler, fourth and Dickies, fifth.

Levi's, the No. 5 brand on the overall brand list, moved into that position largely as a result of improved standings at K mart and Target.

Dickies, last year's No. 5 brand, fell off that list as a result of a much weaker showing at Ames/Zayre. That decline is probably due to Ames' acquisition of Zayre and a reorganized merchandise mix.

Men's: Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Lee	42%	27%	36%	8%
Wrangler	17	29	26	24
Fruit of the Loom	13	32	27	15
Hanes	13	19	16	15
Levi's	10	11	13	24
Dickies	11	11	9	8
McGregor	15	4	11	—
Gitano	8	4	9	—
Manhattan	6	5	6	3
Brittania	2	2	8	1

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Men's: How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Lee	17%	8%	57%	31%
Wrangler	28	34	23	36
Fruit of the Loom	27	32	27	47
Hanes	23	21	11	19
Levi's	12	5	5	25

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Little Makeover Necessary Among Top 10

Nationwide DSN Report

For the sixth straight year Maybelline, Cover Girl, Revlon and Max Factor were the top four cosmetic brands at discount stores, according to results of *DSN's* 1989 Top Brands Survey.

And the four just keep getting bigger.

Maybelline, Cover Girl and Revlon garnered more mentions this year as top performers than they did a year ago, increasing their influence and dominance in the category.

Max Factor, which recorded a one percentage point slip this year, split its influence with Maxell, its parent company.

Maxell was named as a top performing brand with enough mentions to make it No. 7 on the list in a three-way tie with Clairol and Noxell, maker of Noxema.

If Max Factor and Maxell are added together, the cosmetics company would have increased its hold on the No. 4 spot on the Top Brands list. But it would have remained in the fourth slot, still far behind No. 3 Revlon.

Seven of last year's top 10 labels returned to the Top Brands list this year.

The labels not returning to the top 10 are: Almay, down two spots this year to 12th; Sally Hansen, down two places to 11th; Hazel Bishop, which tied Almay for 10th last year but now at 15th; and Aziza, tied with Clairol in 1988 for the No. 7 spot slipped to 13th on the current survey.

New to the list this year are Clarion, in sixth; Maxell, in the three-way tie for seventh; and Coty in 10th.

L'Oreal, last year's sixth place finisher on the top 10 brands list in cosmetics, rose to fifth on the current survey but with the same number of mentions.

Overall, the top four brands advanced, or strengthened their hold on their respective positions, at the expense of other highly-recognizable cosmetic labels.

Maybelline, with a firm hold on the No. 1 spot on the chart, was mentioned as a top performing brand by three-quarters of the managers surveyed. It increased its position among conventional and upscale discounters, in three of the four regions and three of the four discount chains.

So strong is Maybelline that nearly nine of 10 store managers at K mart and Ames/-Zayre mentioned the label as a top performing brand.

For both discounters, Cover Girl was second and Revlon, third.

Maybelline's biggest increase this year was recorded in the Northeast where it advanced 15 percentage points from last year, 25 percentage points ahead of second place Cover Girl.

In the one region where Maybelline did not advance its position, the North Central, it held even with its results from the prior year's survey.

The only decline in dominance recorded by Maybelline was at Wal-Mart. Store managers there said Maybelline was a top performing cosmetic brand slightly less often than they did a year ago but still got three-quarters of all mentions.

Despite all of the increases, Target store managers named Revlon as their top performing brand by three percentage points over Maybelline.

Two-thirds of Target store managers named Revlon as their top performing cosmetics brand, followed closely by Maybelline and Cover Girl in third.

Cover Girl, No. 2 overall, enhanced its standing everywhere but at upscale discounters, in the West and at Wal-Mart and Target.

Wal-Mart buyers named Cover Girl as a top performing brand four out of 10 times, a little less than a year ago. Cover Girl maintains its No. 2 position at Wal-Mart and was closely followed by Revlon, which increased its position at the Bentonville, Ark.-based chain.

Revlon was in third and L'Oreal in fourth.

Target store managers were less enthused with Cover Girl. Four out of 10 managers of the Minneapolis-based upscale discounter named Cover Girl as a top performing cosmetics brand, down from six of 10 a year ago.

Cover Girl's most dramatic increase was recorded at K mart and by retailers in the North Central.

Six out of 10 discounters in the North Central named Cover Girl a top performer this year, up from four out of 10 last year. In the Northeast, Cover Girl gained 10 percentage points from the 1988 survey.

Third place Revlon recorded a modest increase over last year among all discounters, but more sizeable gains among discounters in the Midwest and at K mart and Target.

Target managers gave Revlon its biggest advantage but the scales were balanced by a small decline at upscale discounters and a more substantial one in the Northeast region.

Revlon was the No. 1 cosmetics brand at Target followed by Maybelline—which tied with Cover Girl for the one-two spots in 1988—and Cover Girl in third.

Max Factor's hold on the No. 4 position was a product of small advances and setbacks. Advances were recorded among conventional discounters, in the Northeast and at K mart, Wal-Mart and Target.

Max Factor recorded setbacks by upscale discounters, in the South and at Ames/-Zayre.

L'Oreal, No. 5 on the top brands list in cosmetics, lost ground everywhere but in the West and at Wal-Mart.

In fact, it appears that Wal-Mart is the biggest supporter of L'Oreal products.

More than one-quarter of all Wal-Mart managers surveyed named L'Oreal as a top performing brand. In contrast, few K mart or Target managers named L'Oreal as a top performer and no Ames-Zayre managers did.

The success of a top performing brand in the cosmetics department is attributed to vendor advertising, brand recognition and product performance, according to store managers.

Brand recognition was the top ranked reason Maybelline performs so well at retail, managers said.

Therefore, cosmetics labels that are not well recognized by the public have a lower chance of success.

According to this year's survey, Clarion—which has become a recognizable brand through the company's aggressive advertising program—and Coty have broken through that important barrier.

Cosmetics: Top Brands Vary by Type of Outlet

	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	**1989**	**1988**	**1989**	**1988**	**1989**	**1988**
Maybelline	74%	70%	76%	73%	61%	57%
Cover Girl	51	44	54	44	36	46
Revlon	35	31	28	22	70	76
Max Factor	11	12	10	9	18	23
L'Oreal	7	7	7	10	6	14
Clarion	3	—	3	—	1	—
Clairol	2	4	2	4	2	4
Noxell	2	9	2	10	—	2
Maxell	2	—	2	—	—	—
Coty	1	—	2	—	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Maybelline, Cover Girl and Revlon ranked higher this year than in the prior one. Maybelline was mentioned by three-quarters of the managers within the survey. New contenders in this year's survey are Clarion, Maxell and Coty. (DSN photos)

Cosmetics: How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Maybelline	87%	74%	86%	64%
Cover Girl	67	40	75	44
Revlon	23	37	27	67
Max Factor	10	16	2	14
L'Oreal	5	26	—	3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Cosmetics: Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Maybelline	72%	75%	72%	72%
Cover Girl	47	50	60	40
Revlon	41	27	38	44
Max Factor	17	8	11	13
L'Oreal	3	7	8	8
Clarion	5	2	3	2
Clairol	2	1	2	7
Noxell	3	—	4	2
Maxell	—	1	1	4
Coty	—	2	1	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

TOP BRANDS

HOME PRODUCTS

HOUSEWARES / DOMESTICS / PHOTO / CONSUMER ELECTRONICS / HOME OFFICE / RTA FURNITURE

Cannon, Pepperell Weave Strong Results

Nationwide DSN Report

Pepperell continued its four-year climb in the rankings, culminating this year in the No. 2 spot behind Cannon, the perennial leader in the domestics category.

DSN's current Top Brands Survey recorded a three percentage point increase in the number of mentions for Pepperell—maker of Lady Pepperell and WestPoint Pepperell—as a top performing brand in domestics.

The gain is attributed to a variety of factors: an increased presence at both conventional and upscale discounters and a stronger showing at K mart.

In addition, third-place finisher J.P. Stevens—which is now owned by Pepperell—further enhances Pepperell's presence in the marketplace.

If both Pepperell and J.P. Stevens' results are added together, Pepperell would substantially increase its showing but not its ranking.

Individually, one in 10 managers surveyed named both Pepperell and J.P. Stevens as best performing brands in domestics. Together, they got one-fifth of the mentions, still below that of Cannon, even without Cannon's St. Mary's and Fieldcrest labels added in.

Domestics: Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Cannon	54%	53%	59%	55%	30%	40%
Pepperell/Lady Pepperell/ Westpoint	12	9	11	9	19	11
J. P. Stevens	11	18	12	17	9	21
St. Mary's	11	9	10	6	18	22
Springs/Spring Mills	6	7	6	8	6	1
Martha Stewart	3	—	4	—	—	—
Dan River	3	2	3	2	5	3
Fieldcrest	2	3	2	3	2	2
Kenney	2	4	1	4	3	2
Burlington	1	4	2	3	—	8

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Cannon Outperforms Others

More than half the store managers surveyed named Cannon as a best performing brand, outperforming the other nine brands on the top 10 list combined.

Cannon, the six-time leader in the domestics category, strengthened its position as the industry giant and top ranked domestics label, albeit slightly. The domestics manufacturer recorded a one percentage point increase in its standings this year.

Cannon's strength at retail is attributed first to its brand recognition then to advertising and product performance.

For the top four domestics labels, brand recognition is considered the primary attribute to a label's success followed by product performance and advertising.

Price is the No. 4 factor, according to manager responses.

The top 10 list of best performing brands in domestics includes just one new brand this year, Martha Stewart.

Exclusive to K mart, Martha Stewart—the company's home entertaining consultant and spokeswoman—is developing a full line of domestics and other products under her name. Many of the products, from sheets and pillowcases to dinnerware, are being produced by some of the industry's leading domestics manufacturers. Some of them are on the top 10 list in domestics.

In fact, the mentioning of Martha Stewart-brand domestics as a top performing brand probably held down Cannon's increases. Cannon is a major supplier to K mart and is producing some of Martha Stewart's bed and bath coordinates. (So does J.P. Stevens and WestPoint Pepperell.)

Exiting the top 10 list this year is Graber, a popular window treatment maker, which dropped down to 12th place.

Essentially, the top 10 list remained intact, except for some reshuffling of positions.

Overall, after Cannon and Pepperell, the rest of the top 10 list looked like this: J.P. Stevens, St. Mary's, Springs/Spring Mills, Martha Stewart, Dan River, Fieldcrest, Kenney and Burlington.

Noteworthy this year is the position switch between J.P. Stevens and Pepperell, the rise of Dan River and the weakening of Kenney and Burlington.

The drop of Graber and the weakened position of Kenney, also a window treatment maker, could be the result of the increased attention given to bed and bath and the growing emphasis on coordination.

Domestics: Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Cannon	36%	63%	53%	51%
Pepperell/ Lady Pepperell	21	11	8	14
J.P. Stevens	15	9	12	11
St. Mary's	20	12	8	5
Springs/ Spring Mills	12	4	212	
Martha Stewart	5	3	1	9
Dan River	3	4	3	—
Fieldcrest	2	2	4	—
Kenney	5	2	—	—
Burlington	1	—	—	7

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Domestics: How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Cannon	67%	71%	48%	44%
Pepperell/ Lady Pepperell/ Westpoint	17	18	5	17
J.P. Stevens	27	13	9	11
St. Mary's	5	8	21	14
Springs/ Spring Mills	12	8	9	3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Dan River, which was down in the rankings, actually accumulated more mentions this year than last at both conventional and upscale discounters, and in the South and North Central. Dan River-brand domestics was also ranked third at Ames/Zayre after Cannon and St. Mary's.

Burlington lost ground in the rankings, due mostly to upscale discounters. Target managers didn't mention Burlington as a top performer at all this year.

J.P. Stevens' drop from second to third place, also was due to a large decline at upscale discounters including Target. The drop could be a result of smaller labels making inroads into the mass market. One example of this is Dundee Mills, 14th on the list. This was the first year that Dundee was mentioned as a top performing brand in domestics.

At Target, Cannon strengthened its hold as the No. 1 brand in domestics, followed by Pepperell, which increased slightly, St. Mary's and J.P. Stevens.

Ames/Zayre was the only other discounter to provide Cannon with a strengthened position on the survey.

Nearly half the Ames/Zayre managers surveyed named Cannon as a top performer compared to slightly more than 40 percent last year. St. Mary's was second with one-fifth the manager responses.

St. Mary's performance at Ames/Zayre declined by half on the current survey. This is probably due to the Ames/Zayre merger and the alteration of product lines.

Wal-Mart gave Cannon its strongest showing. Seven out of 10 managers named Cannon as a top performer, down from eight of 10 last year. The top four rankings mirrored the overall list. This year, however, St. Mary's and Springs recorded mention increases, whereas Pepperell and J.P. Stevens recorded declines.

At K mart, Cannon lost three percentage points but held firm on to its No. 1 ranking. J.P. Stevens was second, followed by Pepperell and Springs.

Cannon was the hands-down leader in all four regions with the closest second place finish recorded in the Northeast.

In the Northeast, Pepperell lagged by just 15 percentage points behind Cannon. And St. Mary's was only slightly behind that.

Cannon's strongest showing in the regions was in the South where two-thirds of all respondents named Cannon as a top performer. St. Mary's was second, with twice as many mentions this year as last. Pepperell was named third.

In the North Central, the No. 2 finisher behind Cannon—which dropped a little from 1988—was Stevens.

In the West, Pepperell was named second—with more mentions this year than last—followed by Springs and Stevens.

The top 10 list of best performing brands in domestics includes leaders Cannon and Pepperell. (DSN photo)

Rubbermaid Stretches Lead in Housewares

Nationwide DSN Report

For the sixth straight year, Rubbermaid topped *DSN's* Top Brands list in the housewares category.

This year, Rubbermaid strengthened its hold on the No. 1 spot and widened its lead over second place Corelle, which lost some ground on the current survey.

More than half the store managers surveyed named Rubbermaid as their best performing brand in the housewares department, up 20 percentage points from last year's Top Brands survey.

Rubbermaid also scored big gains among conventional and upscale discounters.

In fact, Rubbermaid's hold on the No. 1 spot included outlet type, region and specific chain. Rubbermaid recorded substantial gains in most of these areas.

The largest gain for Rubbermaid was recorded by Wal-Mart store managers. More than eight out of 10 Wal-Mart managers named the Ohio-based plastics manufacturer as a best performing brand in the housewares category, up from fewer than four in 10 a year ago.

Half of K mart's managers named Rubbermaid as a best performing brand, up from one in 10 on last year's survey; Ames/Zayre managers named Rubbermaid two-thirds of the time compared to fewer than half of them in the previous survey; and four of 10 Target managers named Rubbermaid as a top performer this year, up from one-fifth a year ago.

Perhaps Rubbermaid's popularity is due to the number and variety of products offered by the manufacturer. Many of Rubbermaid's items cross-merchandise lines and are sold throughout the store including housewares, hardware, automotives and stationery departments. This gives the label an ubiquitous presence in the store.

Exactly what characteristics constitute a best performer in housewares is due largely to product performance, advertising and price, in that order, according to manager responses.

Reasons for Success

Advertising, product performance and brand recognition are the reasons cited for Rubbermaid's success, managers said.

Corelle, a brand of the Corning, N.Y.-based company that also manufacturers cookware under the Corning and Visions labels, held a firm grasp on the second-place spot, but the latter two labels had a weakened hold on the third- and fourth-place positions on this year's list in the housewares category.

However, when all three Corning Inc. labels are added together, three out of 10 store managers named Corning products as best performing brands. These results are substantially less than last year when the combined responses for the three Corning brands (45 percent) put it ahead of Rubbermaid.

The Corelle label was the main cause of the decline for the Corning Co. on *DSN's* Top Brands list this year.

The dinnerware label lost ground among all discounters and at conventional and upscale discounters, and among operators in the Northeast, South and North Central.

In addition, Corning and Visions labels lost ground at upscale discounters.

But Corning increased its position among discounters in the Northeast, South and West, and Visions was mentioned more often as a top performer this year by store managers in all four regions.

Among the chains—K mart, Wal-Mart, Ames/-Zayre and Target—Corning Inc. products received fewer mentions as best performing brands on the current survey.

Only Target store managers said Corelle was a best performing brand more often this year than last year. K mart store managers gave the nod to Corning-brand products in higher numbers this year than last; and Wal-Mart store managers said Visions cookware was a best performing brand in greater numbers in the current survey than a year ago.

The entire Top Brands list was composed of eight of last year's top 10 brands. Regal cookware, No. 10 on the 1988 survey, this year fell to 23rd place in a three-way tie with Mirro cookware/bakeware and Hoover vacuum cleaners.

Revere-brand cookware and bakeware, No. 9 last year, fell to 12th place this time.

Regal and Revere were replaced on the top 10 housewares brands list this year by Tucker, a plastics manufacturer and competitor to Rubbermaid, and GE.

The current survey marks the first time Tucker appeared on the Top Brands list. Its presence, however, did not affect Rubbermaid's position.

Interestingly, General Electric reappeared on the Top Brands list even though it does not manufacturer housewares products. In fact, several years ago GE sold its small electrics business—irons, automatic drip coffee pots, toasters, etc.—to Black & Decker, vacating the business entirely.

One explanation for GE's appearance on the list may be linked to microwave ovens. Discounters selling microwaves generally display the ovens in housewares.

Black & Decker tied with Visions for the No. 4 spot on the Top 10 housewares list followed by Ekco, makers of kitchen gadgets, in sixth, Silverstone and Tucker in seventh, GE in ninth and Proctor-Silex in 10th.

It is important to note that Silverstone is not a housewares brand but a non-stick coating on cookware.

This year, half of the top 10 brands in housewares received fewer mentions by store managers as best performing brands. Rubbermaid, as mentioned before, was an exception. But so were Ekco, Silverstone and, for the most part, Black & Decker, which stayed even with last year's responses.

Four Major Chains

At each of the four major discount chains the No. 1 and No. 2 best performing brands in housewares was Rubbermaid and Corelle, but the No. 3 brand varied dramatically among the retailers.

The No. 3 housewares brand at K mart was Silverstone followed by Corning, and Foley bakeware.

At Wal-Mart, the third place spot was tied among Corning, Visions and Silverstone.

Ames/Zayre store managers gave the third place spot to Visions cookware. There were no clear results after that.

Target managers were also unclear as to what housewares brand held firmly onto the third place spot.

Housewares: Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Rubbermaid	54%	34%	56%	34%	41%	35%
Corelle	15	22	16	22	12	19
Corning	10	11	9	8	10	22
Visions	9	12	9	11	5	18
Black & Decker	9	10	7	8	18	18
Ekco	6	6	7	6	3	6
Silverstone	5	5	5	5	3	7
Tucker	5	—	6	—	—	—
General Electric	4	—	3	—	13	—
Proctor-Silex	3	6	4	7	1	2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Housewares: How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Rubbermaid	50%	82%	64%	42%
Corelle	23	13	21	19
Corning	8	11	9	6
Visions	7	11	11	8
Black & Decker	5	8	9	14

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

According to store managers, exactly what characteristics constitute a best performer in housewares is due largely to product performance, advertising and price, in that order. (DSN photos)

Housewares: Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Rubbermaid	42%	59%	53%	53%
Corelle	12	11	17	25
Corning	3	10	15	2
Visions	6	9	9	7
Black & Decker	20	8	4	6
Ekco	—	5	11	6
Silverstone	2	3	8	7
Tucker	2	6	4	5
General Electric	12	3	4	3
Proctor—Silex	8	3	4	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Emerson Stays No. 1 on Managers' Hit Parade

Nationwide DSN Report

For the third consecutive year, Emerson emerged as the top ranked brand in consumer electronics, according to responses to *DSN's* Top Brands Survey.

Emerson's hold on the No. 1 spot was weakened, however.

Second-place General Electric edged up a little, closing to within four percentage points of Emerson. Last year, eight percentage points separated the top two brands.

Until three years ago, GE was the top ranked brand in the CE among discount store managers.

Over the past few years, GE's grip has weakened as Emerson gained momentum.

Overall, most CE labels received slightly fewer responses as top performers this year than last, a result of a growing category and introduction of more brands.

This year, 32 CE labels were mentioned as top performing brands, and 10 percent of the respondents named a wide assortment of other labels that became the "other" category. If "other" were merged into the Top Brands list, it would tie Magnavox as the No. 7 brand.

best performance was at Ames/Zayre. Four out of 10 store managers therenamed Emerson as a top performing brand, down substantially from last year when more than half the managers named Emerson as a top performer in CE. After Emerson, GE and Soundesign were tied for second place, and Panasonic and GoldStar were tied for fourth place.

Target store managers named Emerson slightly less often than Ames/Zayre managers. After Emerson, Target managers cited GE, Sony and Panasonic as top performers.

Sharp Is Tops at K mart

K mart managers gave Emerson the fewest mentions as a top performing brand.

In fact, at K mart, the top performing CE label was Sharp, according to survey results. This is probably due to Sharp's technological advancements, which have translated into improved quality in televisions, VCR's, camcorders, projection TVs, plus its entry into home office. In addition, in January, Sharp will be introducing a full-line of telephones including cordless and business models.

Because of Emerson's increased popularity among Target store managers, GE became the No. 2 CE label at Target.

Sony, which enhanced its standing on the current survey, was named as a best performer by Target store managers more often than at any other discounter.

One-fourth of all Target managers surveyed said Sony was a best performing brand.

Sony's rise in the discount industry is attributed to greater shipments to discount store chains and the company's well-known name.

After Emerson and GE in the one and two positions in the Top Brands Survey, the list is as follows: Panasonic, Sony and Sharp in a three-way tie for third; RCA, sixth; Magnavox, seventh; GoldStar, eighth; Nintendo, ninth; and Soundesign, 10th.

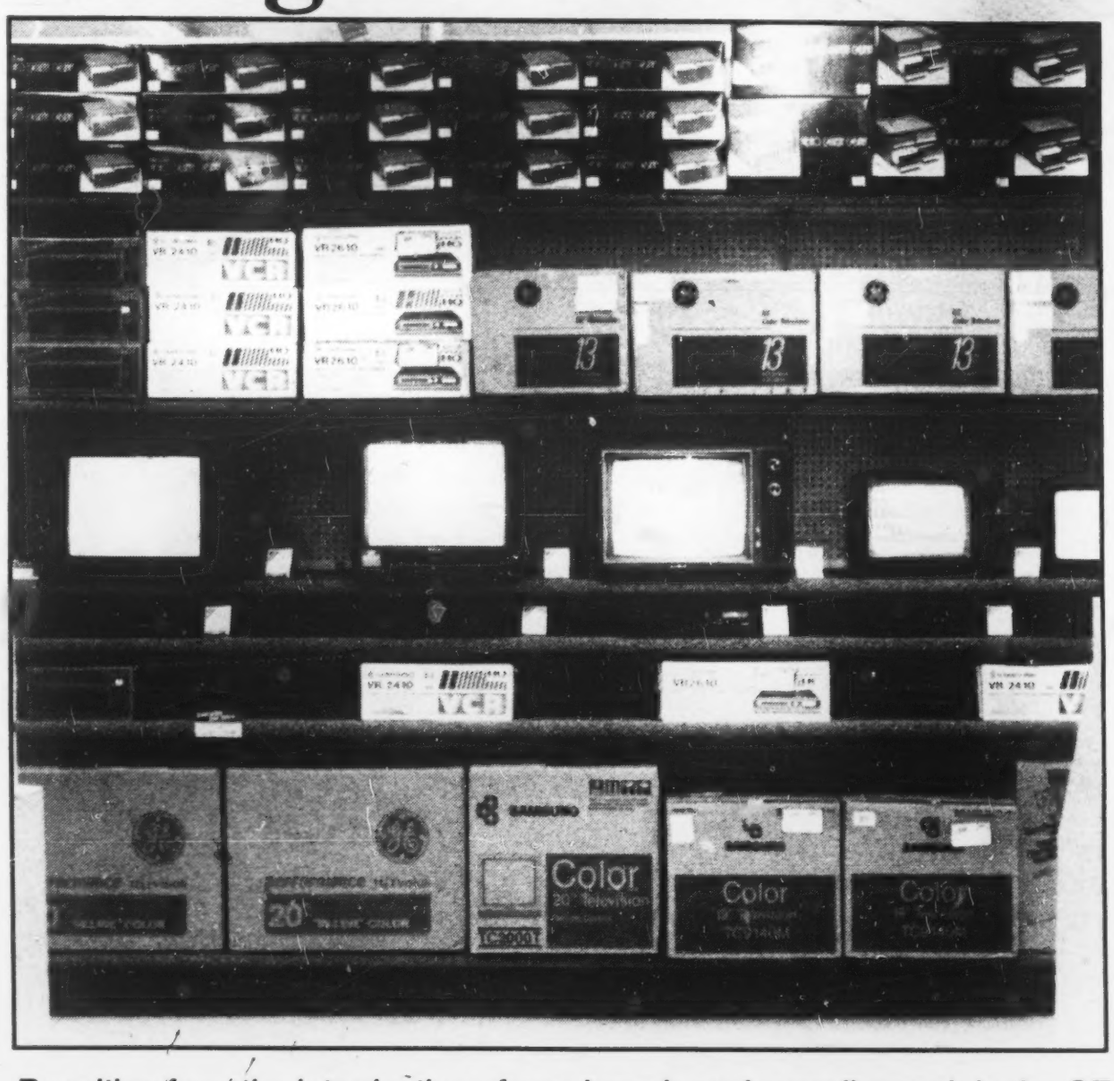
This year's top 10 CE list contains the same labels as last year's, just in a different order.

GoldStar, the 1988 No. 3 finisher, fell to eighth this year, probably to due to the price competitive nature of the business.

Panasonic's three-way tie with Sony and Sharp is probably due to the label's increased presence in discount stores.

Nintendo, which burst onto the Top Brands list last year in a tie for sixth position with Sony, fell back to ninth this year, probably due to shortages of some of its popular games and diminished supplies of needed microchips.

Becoming a popular CE label is largely a function of advertising, according to store managers. Second to advertising is brand recognition and then product performance. Price is fourth.



Resulting from the introduction of new brands and overall growth in the CE category, top performers such as General Electric received fewer mentions in this year's survey as compared with last year's results. (DSN photo)

However, buyers report that price is the third most important factor in helping customers decide upon purchasing a product by Emerson—the highest position for price in the survey.

When store managers were asked to comment on the attributes of Sony products, nine out of 10 said product performance was the the main reason the product is so successful at retail.

And Sony was named as the CE brand store managers most want to have in their CE departments.

Consumer Electronics
How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Emerson	15%	74%	41%	39%
GE	27	16	32	33
Panasonic	13	18	18	17
Sony	8	13	7	25
Sharp	30	5	—	8

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Electronics
Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Emerson	23%	34%	24%	19%
GE	22	21	23	24
Panasonic	15	10	16	15
Sony	17	11	16	8
Sharp	27	6	12	16
RCA	8	8	15	13
Magnavox	9	9	15	3
GoldStar	10	8	10	10
Nintendo	8	8	7	9
Soundesign	8	7	9	2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Fierce competition among the brands is likely to shake up the category in upcoming years, especially as the home office category heats up and thrusts office machine brands into the forefront of fast-turning, higher-margin products.

New product introductions will also add fuel to the competition.

By the end of next year RCA will be in the audio business, the company just announced.

Currently, CE sales at discount stores are driven by TV's, VCR's, radios and telephones, etc.

Leading the list again this year is Emerson, due, in large part, to the brand's standing at Wal-Mart.

Store managers for the Bentonville, Ark.-based discounter named Emerson as the top performing brand nearly five times as often as the No. 2 brand—Panasonic.

In fact, three-fourths of all Wal-Mart managers surveyed said Emerson was their top performing brand in the CE department. Panasonic and RCA were tied for second, followed closely by GE and Sony. Last year, RCA was the clear No. 2 finisher at Wal-Mart.

After Wal-Mart, Emerson's

Three out of 10 K mart managers named Sharp products as best performers, compared with one-quarter of the managers who named GE, which came in second.

Last year, GE-brand CE products were ranked as the top performer at K mart.

After Emerson, K mart managers said the top performing brands in CE were General Electric, RCA, Nintendo and GoldStar.

In all, Emerson was named the top performing brand in the CE department by more than one-fourth of the surveyed managers, down slightly from a year ago.

In fact, Emerson's standing as the No. 1 performer in CE declined in almost every area, particularly among upscale discounters, in the South, and at Ames/Zayre stores.

Emerson is still the No. 1 CE label at Ames/Zayre, though its edge was diminished somewhat. GE, still in second place at Ames/Zayre, rose 11 percentage points from the 1988 survey.

Emerson's best showing this year was at Target. Four out of 10 Target managers named Emerson as a top performer, compared with one-fourth a year ago.

Consumer Electronics
Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Emerson	27%	30%	29%	31%	15%	24%
General Electric	23	22	22	24	27	13
Panasonic	13	14	13	13	13	20
Sony	13	12	10	9	27	28
Sharp	13	9	11	8	25	28
RCA	11	16	10	16	15	12
Magnavox	10	8	10	10	7	17
GoldStar	9	16	9	17	8	11
Nintendo	8	12	9	13	5	7
Soundesign	7	8	8	10	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

New Brands Pop Up in Fragmented Market

Nationwide DSN Report

New companies, line extensions and imports have eroded the positions of some of the nation's top names in personal care appliances, according to results of *DSN's* 1989 Top Brands Survey.

For example, Epilady, a product of Epi Systems, which only became available to the mass market last year, became the No. 10 brand on the Top Brands list in personal care appliances. Epilady wasn't even mentioned as a top performer last year.

Jerri Redding, a growing concern in the industry, rose from 10th last year to ninth on the current survey.

And, indicative of this fragmented market, the "other" category received enough mentions to put it in eighth position on the survey list. No specific labels were mentioned in this category.

In addition, Sunbeam, a major name in the business for years, fell from ninth last year to 12th on the current survey.

The net effect of these results have helped to erode the prominence of such top-ranked labels as Conair and Clairol.

Conair, the No. 1 brand in personal care appliances—with no challengers in sight—has seen its position slowly weakened over the past few years.

Conair Remains First

On the 1989 survey, Conair maintains its strong first place showing, garnering more mentions as a top performing brand than any other product, but with a mention rate of two percentage points less than its 1988 total. This dip adds to Conair's slide in ratings over the past few years.

This year, the industry giant received responses from store managers that were 10 percentage points below its 1987 results.

Clairol, in the No. 2 spot, also had two percentage points shaved off its 1989 totals.

In fact, of the nine personal care appliance labels returning to the Top 10 list this year, four had diminished response ratings, and one had the same numbers as last year.

Fewer than half the store managers surveyed said Conair was a best performing brand, down from half the year before. In 1987, six of 10 store managers said Conair was a best performing brand in personal care electrics.

Conair lost ground at conventional discounters, in the Southern and Western regions and at K mart, Ames/Zayre and Target.

However, Conair did strengthen its position slightly at upscale discounters—even though it dropped a bit at Target—in the Northeast and North Central, and at Wal-Mart.

Clairol received fewer responses from managers naming their top performing brands in this category, particularly at upscale discounters and especially at Target.

One-fourth of the Target managers interviewed for the survey said Clairol was a top performing brand compared to four in 10 a year ago.

Clairol's position as a top performer was strengthened at K mart, however, where 25 percent of the surveyed managers named the hair-care company as a best performer, up nine percentage points from 1988.

Ames/Zayre also gave Clairol more responses as a best performer this year.

Wal-Mart managers mentioned Clairol as a top performer slightly less often this year. Conair was named as a top performer by half the managers surveyed, followed by Vidal Sassoon, Windmere and Remington, all tied for second, and Clairol in fifth. Last year, Clairol was ranked second behind Conair.

Clearly, Windmere's strength in the survey is due to its stake at Wal-Mart where it was named as a top performing brand by nearly one-fifth of the managers.

Overall, Conair and Clairol were No. 1 and No. 2 on the Top Brands list followed in order by Vidal Sassoon, Windmere, Remington, Norelco, Black & Decker, General Electric, Jerri Redding and Epilady.

The line-up, although composed of nine of the same labels, changed substantially from 1988.

Vidal Sassoon and Windmere switched their third and fourth positions; Remington and Norelco made the exchange for fifth and sixth; and Black & Decker did a shuffle for seventh and eighth with GE.

Each position change amounted to a slight variation in the numbers of mentions, however.

And although GE slipped from seventh to eighth position on the top brands survey, GE does not manufacture any product in the personal care electrics category.

GE sold that part of its business, along with small electric housewares, to Black & Decker several years ago.

Apparently, the GE name is so entrenched in the marketplace after years of service, managers forget they are not participants anymore.

Remington's Rise

Remington's rise in the rankings on the current survey is probably due to its introduction of a depilatory product similar to the Epilady. However, Remington is a long-standing label in the personal care appliances category with a wide range of products.

Remington products performed best in the South and Midwest, according to survey results. Store managers in these two regions said Remington was a best performing brand more often on the current survey than they did a year ago.

Epilady, a California-based company, received its strongest showing in the Northeast and North Central and got no responses from Western-based discounters.

Epilady's rising importance within the mass market is clearly due to advertising and brand recognition, the top two factors in becoming a top brand in this area, store managers reported.

When store managers were asked what makes a product a top performing brand in personal care appliances, nearly eight out of 10 managers said advertising, particularly vendor advertising, followed by brand recognition, product performance and price.

Advertising was cited as the No. 1 reason for Remington's success as a top performer, according to survey responses.

The No. 1 reason for Conair's success, according to store managers, was brand recognition, with advertising in second and product performance third.

Personal Care Products
Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Conair	46%	48%	44%	47%	55%	54%
Clairol	16	18	14	15	24	33
Vidal Sassoon	15	14	13	10	29	30
Windmere	14	15	16	16	2	14
Remington	13	10	12	10	15	8
Norelco	12	12	12	13	10	10
Black & Decker	9	7	10	8	2	3
General Electric	7	9	8	10	5	5
Jerri Redding	5	2	6	3	—	—
Epilady	3	—	1	—	11	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Conair maintained its No. 1 place, receiving more mentions than any other brand. Clairol comes in second place, strengthened at K mart, where 25 percent of the surveyed managers rate it a top performer. (DSN photo)

Personal Care Appliances
Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Conair	58%	43%	43%	48%
Clairol	13	15	18	17
Vidal Sassoon	24	13	17	10
Windmere	10	17	14	9
Remington	12	12	17	9
Norelco	15	9	16	8
Black & Decker	2	9	9	14
General Electric	8	7	6	9
Jerri Redding	5	3	4	15
Epilady	6	1	5	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Personal Care Appliances
How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Conair	68%	50%	41%	44%
Clairol	25	11	21	25
Vidal Sassoon	—	18	32	42
Windmere	2	18	2	6
Remington	13	18	21	14

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Kodak is Still Picture-Perfect (and No.1)

Nationwide DSN Report

The Top Brands list in the photo department was again led by Kodak, Polaroid, Canon, Minolta and Fuji, but with a greatly reduced mention rate, according to results of *DSN's* 1989 Top Brands Survey.

The decline in the number of mentions continued a trend established a few years ago.

Apparently, the gradual decline of the photo and camera category at discount chains continued this year, as operators deemphasized photo products due to disappointing productivity. Additionally, photo takes a level of expertise not generally found among discount employees, so the chains have lost large-ticket customers to specialty stores.

Also, discounters are less inclined to maintain upper-end merchandise at lower-than-preferred margins.

Hope is on the horizon, however. Companies such as Wal-Mart, Ames and K mart are attempting to turn things around by upgrading their respective photo and camera departments to broaden the appeal of the stores to non-traditional discount store customers. All have introduced serviced departments—manned by a clerk at all times—in recent prototypes, and are attempting to sell more upscale merchandise.

The jury is still out on the success of these remerchandising programs.

In the meantime, discounters are maintaining photo and camera departments with most all of the industry's top brands.

Leading the way for the sixth consecutive year is Kodak, the most popular name in photographic equipment and one of the most dominant brands in any discount department.

Kodak, which recorded a one percentage point decline in store manager mentions, actually widened its lead over No. 2 Polaroid, which has undertaken a difficult transition from instant photography to faster growing 35mm technology.

In fact, nearly eight out of 10 store managers surveyed said Kodak is their best performing brand in photographic equipment, compared to a little more than two in 10 for Polaroid.

Despite Kodak's firm hold on the top spot, the Rochester, N.Y.-based photographic giant recorded substantial declines in manager mentions at upscale discounters, including Target, at Wal-Mart, and among Western-based discounters. Small declines for Kodak were recorded in the Northeast, South and North Central. But mention increases were charted for Kodak at K mart and Ames/-Zayre.

At K mart, almost nine of 10 store managers named Kodak as a top performing brand, up from eight of 10 in 1988.

Nearly all the Ames/Zayre managers surveyed said Kodak was a top performer, up from nine of 10 last year.

After Kodak, the only photo brands to record mention increases of any kind included Fuji, Pentax, Nikon and Canon.

No. 2 Polaroid recorded mention declines in every grouping studied (by chain type and region of the country), according to results of the current survey. This was probably due to consumer preference for lower cost instamatics and 35mm cameras, both of which use film that is cheaper by the roll to purchase and develop.

The largest decline was recorded by Fuji, which received approximately half the number of mentions this year than last. However, Fuji did perform better this year in the Northeast, where it edged up one percentage point.

Fuji's decline might be related to the company's high-end image, which could be in conflict with the needs of the average discount shopper. A company spokesman noted, however, that just the opposite might be true. Due to the purging of the brand by Wal-Mart, among others, more sophisticated photographers might be shunning discounters as film sources, resulting in a self-fulfilling prophecy.

"We're still very strong among consumers," he remarked. "No mass market outlet can maximize sales, particularly among upscale consumers, without carrying both Kodak and Fuji. Film is less thanever a commodity purchase, and advanced amateur photographers will go where the selection is."

Overall, the Top 10 brands list is composed of all but one of last year's labels. And the upper half of the list—Kodak, Polaroid, Canon, Minolta and Fuji—is the same as 1988.

The bottom half of the Top 10 list experienced a lot of change, however.

New to the list this year is Emerson. Mainly known as a consumer electronics brand, the company's selection by discount store managers is more than a bit of a surprise, particularly since it came from nowhere to tie perennially ranked brands such as Nikon and Duracell for seventh.

Keystone, No. 10 last year, fell to 15th on the current survey, probably due to the turmoil at that company last year and increased pressure from low-end imports.

In 10th position this year is Scotch/3M, down from sixth.

Pentax and Nikon, which were tied for eighth on the 1988 survey, made the biggest advance on the list this year. Pentax took the lead of the two labels, however.

Pentax rose two spots on the current survey to sixth, largely to mention increases at conventional and upscale discounters and among operators in the Midwest and West.

Nikon, up one spot to seventh, owes its rise to an increase in the North Central and among conventional discounters. Upscalers, however, mentioned Nikon as a top performing brand less often this year than in 1988.

To be a top performing brand at discount stores managers said the photo label must perform well, be a recognizable name and be supported by vendor advertising.

Nowhere was product performance more important than among managers who named Polaroid as a top performing brand. All the managers who named Polaroid as a top performer attribute the brand's success to product performance.

In addition to being the overall top brand in the photographic category, Kodak is the No. 1 label in all four regions and at all four discount store chains.

Polaroid's best showing was at Ames/Zayre. Half the managers said Polaroid was a top performing brand, second to Kodak, which was named by almost all the surveyed managers.

Target managers gave Kodak its weakest No. 1 showing, Ames/Zayre its strongest.

After Kodak, Target managers said Canon was the No. 2 brand followed by Minolta and Polaroid.

K mart managers put Canon in the No. 2 position followed by Polaroid, Minolta and Fuji.

At Wal-Mart, Polaroid is second; Canon, third; and Scotch/3M is the No. 4 brand.

Photo, Camera: Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Kodak	79%	80%	83%	81%	60%	75%
Polaroid	24	34	27	36	11	25
Canon	17	19	15	14	29	41
Minolta	13	15	11	13	24	26
Fuji	5	9	5	10	4	7
Pentax	3	2	3	2	4	2
Nikon	2	2	2	1	4	6
Emerson	2	—	2	—	3	—
Duracell	2	3	2	4	—	1
Scotch/3M	1	5	2	5	1	6

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Kodak and Polaroid were most often mentioned as top performers in the photo dept. (DSN photo)

Photo, Camera: How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Kodak	85%	82%	96%	69%
Polaroid	28	24	50	17
Canon	35	16	9	42
Minolta	18	5	—	33
Fuji	8	—	—	3

Source: Discount Store News/*Leo J. Shapiro and Assoc.*

Photo, Camera: Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Kodak	85%	84%	78%	65%
Polaroid	22	30	21	18
Canon	18	12	22	20
Minolta	16	6	16	18
Fuji	7	1	9	3
Pentax	—	—	5	7
Nikon	2	1	4	2
Emerson	—	4	2	—
Duracell	2	1	1	2
Scotch/3M	2	3	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

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Tide Retains Top Spot in Household Cleaners

Nationwide DSN Report

Tide laundry detergent once again topped the list as the leading household cleaner and chemical brand on *DSN*'s Top Brands Survey, although its lead narrowed from both the 1988 and 1987 surveys.

Moreover, Tide's weakened position placed it at the forefront of a category in which there was high turnover among the managers' choices of top performing brands.

Only five of last year's top brands made the top 10 ranking this year, and only one of those five brands, Clorox, moved up in the rankings this year.

Clorox was the big gainer in the current survey, rising from third place to second place on the store managers' list of top performing brands in the household cleaners and chemicals survey. The popular laundry bleach was mentioned as a top performing brand by nearly one-third of the store managers questioned. Last year, one-fifth of the managers surveyed mentioned Clorox as a top performing brand.

Clorox also was the No. 2 household cleaner at K mart, Wal-Mart, Ames/Zayre and Target, recording substantial gains from last year.

Windex, last year's second place finisher among all surveyed store managers, fell to fourth place on the current survey. Fewer than one-sixth of store managers surveyed mentioned Windex as a top performing brand, down from one-fifth of the managers in the 1988 survey.

Windex was third among conventional discounters and fourth at upscale discounters.

Top 10 Performers

After Tide and Clorox, the top 10 list of best performing brands in the household cleaners and chemicals category shaped up as follows: Procter & Gamble, Windex, Dow, Lever Brothers, Johnson, Formula 409, Lysol and Dawn.

This was the first time that store managers named Procter & Gamble and Lever Brothers as brands. They are companies that make such brands as Tide and Wisk. Neither company offers household cleaners under their company name.

The mentioning of these two manufacturing giants may also indicate the dominance of their products at the retail level, leaving store managers with the impression that any product produced by those companies is a best performing brand.

Procter & Gamble placed two brands in the top 10 list, Tide and Dawn, the No. 10 finisher. Lever Brothers best showing was with Wisk, the No. 13 finisher.

Aside from Tide and Clorox, the only brands to survive last year's survey were Windex, which fell from second to third position; Lysol, which fell from sixth to ninth; and Formula 409, which rose from 10th to seventh.

Tide, while maintaining the lead position in this category, was mentioned as a top performing brand by four in 10 store managers, which is down from a response rate of nearly 50 percent on the 1988 survey. Tide retained its No. 1 spot among conventional and upscale discounters, but again, its lead weakened.

The five labels that dropped off the current top brands list were Fantastic, which tied with Downy and Cheer for the 16th spot; Comet, which fell to 15th; and Purex, down two spots to 11.

Fewer Brands Dominated

This year, 39 brands were mentioned as top performing brands in the household cleaners and chemicals category, about the same as last year. However, the responses by store managers seem to indicate that fewer brands dominated. And the few dominant brands are losing their stranglehold on the category.

Tide is a case in point. Tide's only advances were recorded among discounters in the western United States and at Target stores, according to store manager responses. Last year, Tide strengthened its lead in most categories including outlet type, specific chain, region of the country and store size.

This year, Tide recorded a three percentage point increase in responses as a top performing brand in the West, to four in 10 managers. And Target store managers named Tide as a top performing brand nearly three-quarters of the time compared to a little more than six in 10 last year.

Tide's position at K mart, Wal-Mart and Ames/Zayre declined in the current survey. In fact, Tide was mentioned as the top performing chemicals brand at all three retailers in the 1988 survey but not this year.

In the current survey, K mart store managers mentioned Tide as often as Procter & Gamble. Windex was a close second at nearly one-fourth of the responses.

The other three retailers had Tide in the top spot, although in a diminished position—except at Target. Clorox finished No. 2 to Tide.

Clorox was the overall second-place finisher in the survey, an enhanced position for the bleach over the 1988 brands study. At upscale discounters, however, Clorox received the same number of responses on this survey as it did the year before, one in three.

In the Northeast region, Clorox was the No. 1 household cleaner, with one-third of the responses, followed by Tide, Windex and Procter & Gamble.

Clorox's only decline on the current survey was in the South. Last year, one-third of the store managers surveyed mentioned Clorox as a top performing brand. This year, three in 10 mentioned Clorox. The popular bleach brand remained in the second position, however, right behind Tide.

In the North Central states, Windex placed second as a top performing brand behind Tide, with a greatly enhanced position. It was Windex's best showing. One-third of the store managers polled mentioned Windex as a top performing brand, up from less than 25 percent a year ago.

Western-based discount store managers gave Procter & Gamble, as a brand, the No. 3 spot, its best showing. Twenty-five percent of the store managers surveyed mentioned Procter & Gamble as a best performing brand, giving it second place.

Procter & Gamble also placed third on the top brands list at the individual chains, K mart, Wal-Mart, Ames/Zayre and Target, outmentioning Windex. And among K mart store managers, Procter & Gamble was mentioned more than Clorox, Windex and Dow.

Store managers appeared to be so pleased with the selection of brands in the household cleaners and chemicals department that fewer than 2 percent of them indicated the category needed more branded products.

In fact, only personal care and photo and camera received fewer responses from managers when they were asked if the category could be strengthened by adding another brand.

But a strong advertising campaign could probably change their minds.

Store managers reported that the success of their top brands is mostly associated with advertising, particularly by the manufacturer. Second to that is brand recognition, then company reputation and then price.

Household Cleaners
Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Tide	41%	48%	40%	47%	44%	52%
Clorox	27	21	27	19	30	30
Procter & Gamble	17	—	17	—	17	—
Windex	16	21	18	20	11	24
Dow	9	—	10	—	6	—
Lever Brothers	7	—	7	—	8	—
Johnson	6	—	6	—	8	—
Formula 409	6	7	5	7	8	4
Lysol	6	11	6	11	4	11
Dawn	5	—	6	—	—	—

Source: Discount Store News/Leo J. Shapiro & Assoc.

The household cleaner category had a high turnover among the managers' choices of top performing brands. (DSN photo)

Household Cleaners
How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Tide	25%	47%	57%	72%
Clorox	18	37	36	44
Procter & Gamble	25	24	16	19
Windex	23	5	7	8
Dow	17	8	7	11

Source: Discount Store News/Leo J. Shapiro and Assoc.

Household Cleaners
Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Tide	29%	38%	51%	40%
Clorox	31	30	27	17
Procter & Gamble	10	12	23	25
Windex	12	5	32	17
Dow	5	5	19	4
Lever Brothers	4	6	9	10
Johnson	3	6	9	3
Formula 409	5	5	3	16
Lysol	2	6	9	2
Dawn	4	7	4	4

Source: Discount Store News/Leo J. Shapiro & Assoc.

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TOP BRANDS
HARD LINES

AUTOMOTIVES / HEALTH & BEAUTY AIDS / HARDWARE / TOYS / STATIONERY / SPORTING GOODS / DIY

Shampoos Wash Up on Top 10 Survey List

Nationwide DSN Report

The 63 brands that store managers named as top performers in the health & beauty aids category helped to undermine the long-standing dominance of Crest and Colgate as the No. 1 and No. 2 labels, according to results of *DSN's* 1989 Top Brands Survey.

The two toothpaste labels still held on to their top rankings, however.

Crest, the top ranked brand in the health & beauty aids category, controls the No. 1 spot with more than twice the number of mentions of second-place Colgate. The amount of mentions for each, however, declined by 11 percentage points from 1988.

Johnson & Johnson, the No. 3 brand on the survey list, switched places with Listerine, now ranked fourth.

New to the top 10 brands list this year are Procter & Gamble (maker of Crest, Scope and Ivory), in fifth; Suave in sixth; White Rain in eighth; and Ivory, 10th.

All make hair shampoos and conditioners.

Procter & Gamble produces no products under its corporate label.

Obviously, the strength of P&G transcends any particular brand on a retailer's shelf. Or, managers are so convinced that P&G products are top sellers that they just listed P&G in the generic sense.

In fact, if all the P&G products in the top 10 are added together, P&G received two-thirds of all mentions for top performing brands in the health & beauty aids category, substantially above its 1988 results.

Colgate's position would not have changed.

Furthermore, if all products under a corporate moniker were added together, Crest and Colgate would further enhance their standings on the 1989 Top Brands Survey.

P&G, Suave, White Rain and Ivory unseated Revlon, Right Guard, Aqua Net and Lever Brothers.

Currently, Revlon is 11th; Right Guard, 32nd; Aqua Net, 61st; and Lever Brothers, 62nd.

It is important to note that the "other" category received enough mentions to put it in a tie for fifth place with Procter and Gamble if P&G is taken separately as a brand.

Health & Beauty Aids
Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Crest	39%	48%	41%	48%	29%	44%
Colgate	18	29	18	30	17	24
Johnson & Johnson	14	12	14	12	13	13
Listerine	13	18	14	18	7	13
Procter & Gamble	12	12	11	12	13	13
Suave	10	—	11	—	5	—
Clairol	7	6	9	5	1	13
White Rain	7	—	8	—	3	—
Scope	6	8	7	8	3	7
Ivory	6	—	7	—	3	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Crest was the top ranked brand in H&BA. Procter & Gamble brands, taken together, totaled two-thirds of the responses.

Health & Beauty Aids
Top Brands Performance by Region

Brand	Northeast	South	North Central	West
Crest	27%	45%	40%	35%
Colgate	9	19	20	17
Johnson & Johnson	13	14	19	7
Listerine	12	19	11	3
Procter & Gamble	15	10	13	10
Suave	12	7	14	4
Clairol	7	6	7	12
White Rain	8	10	6	—
Scope	2	7	7	8
Ivory	3	4	9	9

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Health & Beauty Aids
How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Crest	33%	42%	36%	50%
Colgate	20	21	14	28
Johnson & Johnson	17	24	18	17
Listerine	5	26	16	6
Procter & Gamble	17	16	9	17

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Exactly what distinguished one product from the myriad of others available in this fast-turning, highly-consumable category is product performance, first; brand recognition, second; and vendor advertising, third; according to store managers.

When asked about specific products, managers said advertising was the No. 1 reason P&G and Colgate products do so well at retail.

Managers owe Crest's performance first to product performance, then to brand recognition and thirdly to advertising.

Crest, the top ranked product in the health & beauty aids category—when examined individually—lost ground at all discounters, conventional and upscalers, in the Northeast, North Central states and West, and at K mart, Wal-Mart and Ames/Zayre.

Only Target managers named Crest as a top performing brand more often this year than they did in 1988.

Half of Target's store managers named Crest as a top performer in the health & beauty aids category. Colgate was second followed by Johnson & Johnson and Procter & Gamble tied for third and Listerine in fifth place.

Although Target store managers named Crest more often this year as a top performing brand in the health & beauty aids category, upscale discounters in general did not.

Three in 10 managers at upscale discounter stores named Crest as a top performing brand, down from more than four in 10 a year ago.

Crest performed best at conventional discount stores, according to survey results.

Although fewer conventional discounters named Crest as a top performer this year than last, the popular toothpaste label lost only seven percentage points from the 1988 survey.

And despite the decline, Crest still held on to the No. 1 spot at the nation's top three discount chains.

Crest was No. 1 among K mart buyers, followed by Clairol, Colgate and Johnson & Johnson and Procter & Gamble, which were tied for fourth.

Top Performer

One-third of the surveyed K mart managers named Crest as a top performer, compared to half of them a year ago. Colgate remained in the No. 2 spot at K mart in a diminished capacity but recorded less of a decline at the chain than did Crest.

Wal-Mart buyers, too, named Crest as a top performing brand more often than any other product, but Colgate did not come in second as it did a year ago.

This year, the No. 2 ranked health & beauty aid product was Listerine, which rose in the rankings, followed by Johnson & Johnson and Colgate. Johnson & Johnson also strengthened its position at Wal-Mart. Procter & Gamble came in fifth.

Ames/Zayre managers had Crest and Johnson & Johnson in the one-two spots. For Johnson & Johnson, the No. 2 spot is an enhanced position from 1988. Listerine was third at Ames followed by Colgate and Procter & Gamble. Last year, Zayre store managers ranked Listerine substantially higher than they did this year.

The regional breakdowns gave Crest the top spot in all four areas and Colgate the No. 2 position in every region but the Northeast.

In fact, Colgate was sixth in the Northeast. After Crest—which declined by 14 percentage points from the 1988 survey—was Procter & Gamble in second followed by Johnson & Johnson in third. Listerine and Suave tied for fourth, then came Colgate.

Colgate's best second-place finish was recorded in the North Central states.

In the North Central states, Crest had twice the number of mentions than did Colgate. Still, Crest was down 16 percentage points in the Midwest this year compared to a decline of just seven percentage points for Colgate.

The closest third place finish was also in the North Central states.

Johnson & Johnson was only one percentage point behind Colgate in the North Central states followed by Suave, Procter & Gamble, Listerine, Ivory, Clairol and Scope in eighth and White Rain.

Greeting Cards Dethrone Writing Tools

Nationwide DSN Report

Aggressive advertising campaigns, merchandising programs and new line introductions helped thrust greeting card manufacturers to the forefront of the stationery department, according to results of the 1989 Top Brands Survey.

For the first time, four greeting cards labels appeared on the top 10 list of best performing brands in the stationery department, dethroning writing instruments as the major player.

Only Bic, Crayola and Papermate represented writing instruments this year, compared to five brands in 1988.

American Greetings, the only greeting card brand on last year's top list, was joined by Ambassador, Gibson Buzza and Hallmark this year.

Hallmark does not have card departments in the mass market. Instead, it maintains a presence through its mass market division, Ambassador.

American Greetings, last year No. 5 on the chart behind Papermate and Crayola, moved up to third place behind first-place Mead and second-place Bic. Its rise on the charts was accompanied by dramatic increases in every area surveyed: outlet type, region and specific retailer.

American Greetings was the only brand returning to the Top 10 list to record dramatic increases in every area.

Supporting American Greetings rise on the Top Brands Survey were large increases at conventional discounters, particularly K mart and Wal-Mart.

Managers at these two discounters didn't even mention American Greetings as a top performer on the 1988 survey. This year, however, one-fifth of all K mart managers and three of 10 Wal-Mart managers named American Greetings as a top performer.

Mead, the No. 1 brand, strengthened its spot on the current survey but not with the same increases recorded by American Greetings.

In fact, Mead, which widened its lead over second-place Bic on this year's Top Brands Survey, actually recorded some weakening of its position. Mead received fewer mentions as a top performer by discounters in the Northeast and South and by Wal-Mart and Target managers. Overall, this did not affect Mead's No. 1 standing.

Retailers in the Northeast lost a little enthusiasm for Mead paper this year, giving Bic writing instruments the No. 1 ranking, but that's unchanged from last year, too.

Mead did post gains in responses from all the surveyed store managers and among conventional discounters.

Nearly four of 10 upscale discounters named Mead as their best performing brand in the stationery department, the same as last year.

Overall, Mead's growth is *(Continued on page 147)*

Stationery: Top Brands Vary by Type of Outlet

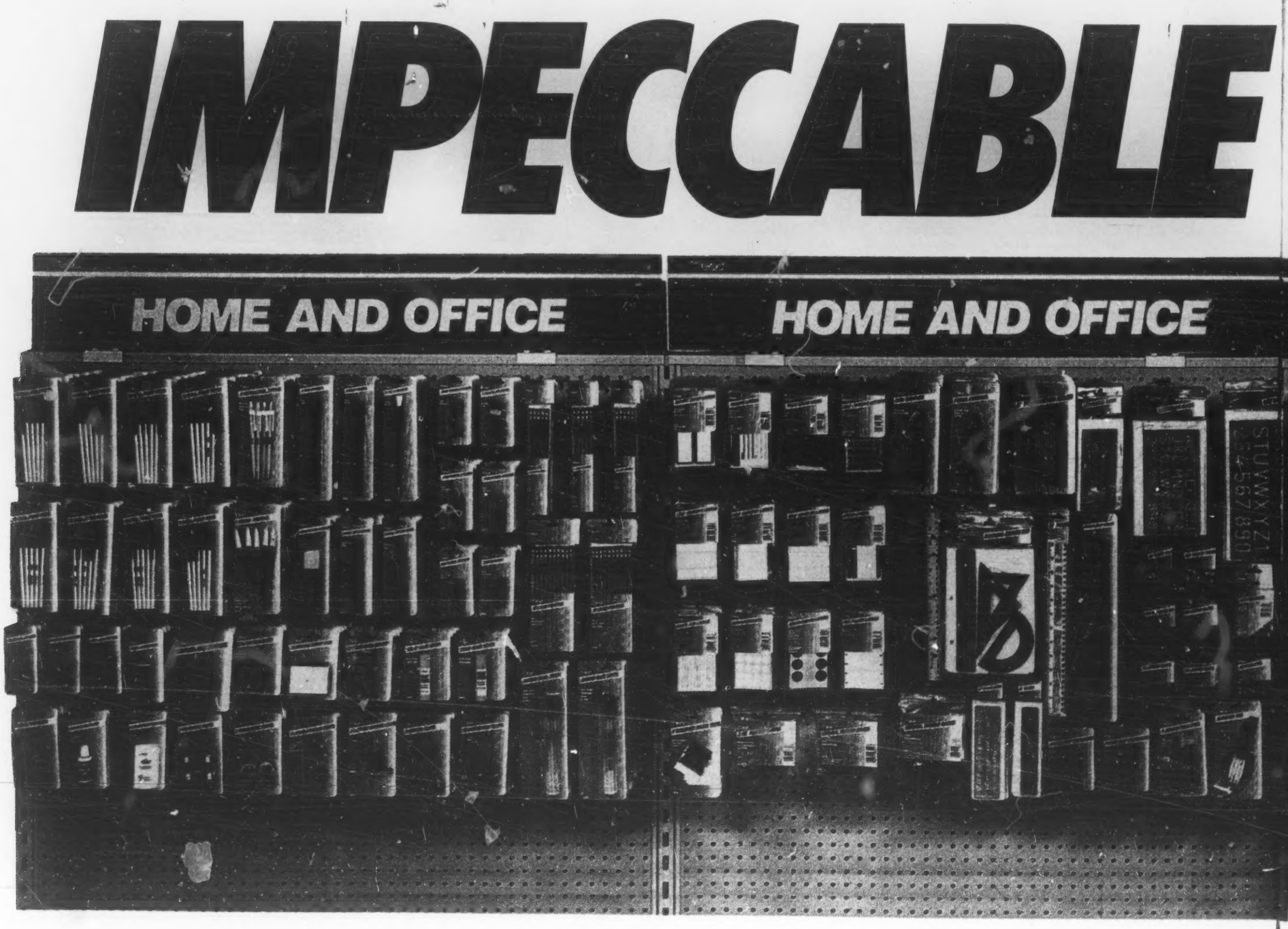
	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	**1989**	**1988**	**1989**	**1988**	**1989**	**1988**
Mead	46%	41%	47%	41%	37%	37%
Bic	27	31	27	30	29	35
American Greetings	17	4	17	4	16	6
Crayola	7	11	7	12	5	6
Papermate	5	14	6	13	4	19
Ambassador	4	—	4	—	6	—
Cambridge	4	—	4	—	1	—
Gibson Buzza	4	—	4	—	—	—
Hallmark	3	—	4	—	1	—
Stuart Hall	3	3	2	3	6	2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Stationery: How Industry's Top 5 Fare at Chains

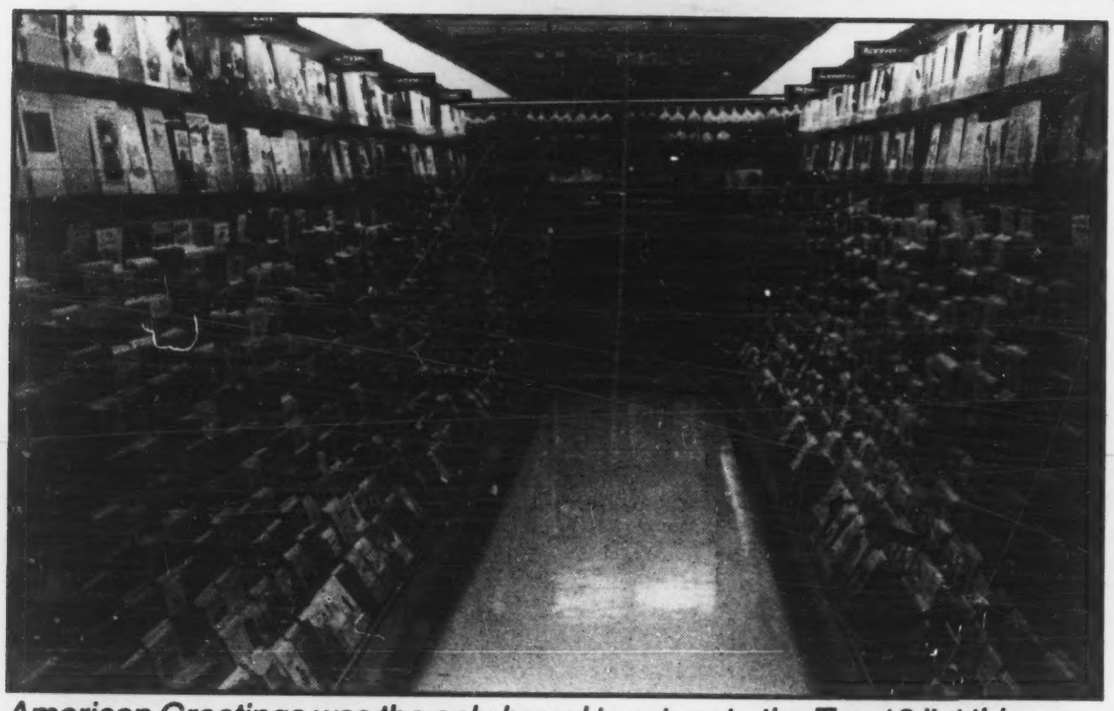
Brand	K mart	Wal-Mart	Ames/Zayre	Target
Mead	42%	45%	66%	58%
Bic	33	29	36	31
American Greetings	18	26	30	17
Crayola	13	11	—	8
Papermate	8	3	2	3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*



Stationery: Top Brands' Performance by Region				
Brand	Northeast	South	North Central	West
Mead	24%	39%	57%	61%
Bic	28	25	30	26
American Greetings	16	17	18	17
Crayola	5	8	8	2
Papermate	3	6	6	6
Ambassador	2	5	5	1
Cambridge	—	5	4	5
Gibson Buzza	3	2	3	9
Hallmark	3	2	6	3
Stuart Hall	6	3	3	—

Source: Discount Store News/Leo J. Shapiro & Assoc.



American Greetings was the only brand to return to the Top 10 list this year.

Four Greeting Card Companies Make Top 10 for Current Year

(Continued from page 146)
due largely to an improved standing among conventional discounters, according to survey results.

Second-place Bic, which has a firm hold on the No. 2 spot, received fewer mentions as a top performing brand in the stationery department on the current survey. However, its grip on the second spot is unchallenged, as is Mead's for the top seat.

Third-place American Greetings is 10 percentage points behind Bic among all surveyed discounters and conventional discounters and 13 points behind upscale discounters.

Nearly half the store managers surveyed mentioned Mead as a top performing stationery brand, up from four in 10 mentions on last year's survey, and 19 percentage points ahead of Bic. Bic was mentioned by fewer than three in 10 managers as a top performer, down from a third of the managers a year ago.

Store managers reported that vendor advertising has a lot to do with helping to support a top performer, followed by brand recognition and product performance. But in the case of American Greetings, store managers said brand recognition was the No. 1 reason the greeting card company performed so well, followed by product performance and advertising.

The top 10 stationery list features six of last year's best performing brands.

Falling from the top 10 list this year were Hirlitz, Scripto, Scotch/3M and Parker. Returnees from last year's Top 10 rankings were Mead, Bic and American Greetings in the first three spots, followed by Crayola in fourth, the same as in 1988: Papermate, fifth, down from third last year; and Stuart Hall, 10th, down from its three-way tie for fifth last year.

On the current survey, fewer than one in 10 store managers named Crayola as a top performing brand in the stationery category down from one in 10 last year.

Papermate also declined in the number of mentions it received this year.

Stuart Hall dropped back three spaces from the 1988 survey but with the same number of responses. However, among upscale discounters, Stuart Hall was mentioned more often this year as a top performing brand.

New to the 1989 Top Brands Survey were Ambassador, in sixth place; Cambridge, seventh; Gibson Buzza, eighth; and Hallmark, ninth.

The new additions received fewer than one in 10 mentions by store managers as top performing brands. The stationery department is still led by the big three brands: Mead, Bic and American Greetings.

And if Cambridge, a division of Mead, is figured into Mead's results, the Dayton, Ohio-based stationery manufacturer increases its strength as the top performing brand in the stationery category.

Among the individual discounters, Mead was the top performing brand, increasing its position at K mart, Wal-Mart and Ames/Zayre. Target managers names Mead as a top performer slightly less often than they did a year ago.

PEGABLES.

Want to peg some healthy profits? Turn to the Pegables line from the Mead One Source Force. With a full-line offering, high-impact graphics, minimized card sizes and convenient reusable packages for your customer, Mead's expanded peg line is something you can hang profits on ... all year long!

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42–89

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Wilson Evens 6-Year Battle with Coleman

Nationwide DSN Report

Wilson edged out Coleman for the No. 1 spot on *DSN's* 1989 Top Brands Survey, giving each label three wins on the 6-year-old report.

Last year, the two companies were virtually tied but Wilson edged out Coleman by tenths of a percent.

This year, Wilson pulled away with a five percentage point lead over second-place Coleman, which only slightly nosed out Spalding in the No. 3 spot.

Spalding, last year's No. 3 finisher, received more mentions this year as a top performing brand, closing the gap between it and Coleman and becoming more of a challenger for Wilson's top berth.

On the 1989 survey, one-third of all managers surveyed mentioned Wilson as a top performing brand in the sporting goods category, compared to slightly more than one-quarter of the managers naming Coleman and one-fourth the managers saying Spalding.

Zebco, in fourth, was 10 percentage points behind Spalding on the survey but firmly in control of the No. 4 position.

Rounding out the top 10 brands on the 1989 survey (in order) were MacGregor, Huffy, Franklin, Garcia, Berkley and Academy Broadway.

Remington arms, Daiwa fishing and tackle, and Igloo coolers, the eighth, ninth and 10th brands last year, fell off the Top 10 list. This year, they are 17th, 11th and 14th, respectively.

Newcomers to Survey

New to the 1989 list are Berkley, a fishing and tackle manufacturer; Franklin, a producer of gloves and sports balls; and Academy Broadway, a diversified sporting goods manufacturer.

Academy Broadway produces such products as boating accessories, backpacking items, inflatables and tents.

For the labels returning to the Top Brands list this year, relatively few changes in rankings were recorded.

Huffy and MacGregor exchanged the No. 5 and No.6 spots, and Garcia remained in a tie for the seventh spot, this year with Franklin instead of Remington.

Huffy's slip on the chart, most dramatic at upscale discounters, is probably due to flat sales in the bicycle category.

MacGregor recouped some of the ground it lost in 1987 by receiving more mentions this year from both conventional and upscale discounters and among discounters in all four regions. MacGregor did not make the list of top five brands at the individual chains last year but came in fifth this year because of a very strong showing at K mart.

One-quarter of K mart managers surveyed named MacGregor as a top performing brand, giving it the No. 4 spot on its Top Brands list.

At K mart, Coleman products were ranked the top performer, based on manager responses, by only two percentage points. Wilson was second, followed by MacGregor, Spalding and Zebco.

Coleman, which lost some ground at conventional discounters but gained at upscalers, dipped a little at K mart, Wal-Mart and Target, but increased at Ames/Zayre.

At Ames/Zayre, Wilson edged out Coleman for the No. 1 spot, but only by two percentage points. However, fewer Ames/Zayre store managers mentioned Wilson as a top performing brand. Last year, nearly half the managers named Wilson as a top performer compared to one-third the managers this year.

Coleman and Spalding were tied for second place at Ames/Zayre with three in 10 store managers naming each brand as a top performer, up from two in 10 mentions for each one on the prior year's survey.

The most dramatic change in pecking order occurred at Wal-Mart. Managers at the Bentonville, Ark.-based chain said Wilson was their top performing brand followed by Spalding and Zebco, tied for second.

Last year, Wal-Mart managers said Zebco was their top performing brand in the sporting goods category and Coleman was second.

Wilson received its strongest showing at Target.

Two-thirds of Target's store managers said Wilson was their top performing sporting goods brand, up from four in 10 managers a year ago. Spalding was second with four in 10 responses, up from a third the managers last year. Coleman took third place among Target store managers with three in 10 managers naming the popular maker of insulated products.

Wilson, Coleman and Spalding faltered a little in the rankings among the discounters in each of the four regions.

Wilson held on to the No. 1 spot in the Northeast, although in a greatly diminshed capacity, and in the South, and North Central states, in an enhanced position.

Western-based discounters said Coleman was their best performing brand in the sporting goods category, and gave Wilson the second spot, followed by Spalding.

Coleman's performance in the Northeast, South and North Central states declined slightly from a year ago and was equal to 1988 in the West.

Spalding received fewer mentions as a top performer in the Northeast and South.

Zebco declined slightly in all four regions.

MacGregor's rate of mentions was even with last year in the Northeast and up slightly in the other three regions.

Huffy only gained ground in the West.

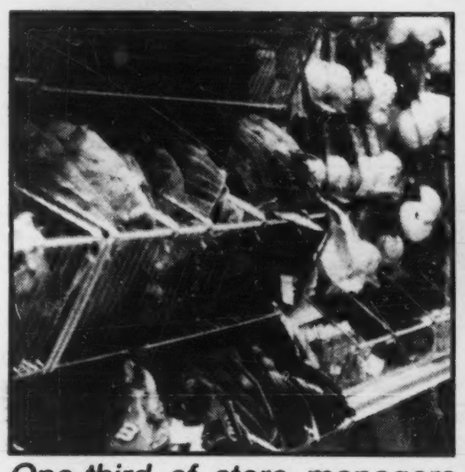
Store managers attributed the success of their best performing brands to vendor advertising, brand recognition and product performance.

Ingredient to Success

Advertising was most associated with Coleman as an ingredient to its success at retail. Nine of 10 store managers said advertising, especially vendor advertising, was the biggest reason Coleman performed so well at retail.

Product performance was second and brand recognition third for Coleman products, according to manager responses.

Brand recognition was the dominant reason for the success of Zebco and Wilson products, store managers reported. After that was advertising, followed by product performance.



One-third of store managers surveyed mentioned Wilson as a top performer.

Sporting Goods: Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Wilson	32%	28%	30%	23%	44%	50%
Coleman	27	28	25	27	39	32
Spalding	26	22	24	20	32	33
Zebco	16	20	19	23	3	8
MacGregor	8	6	9	7	1	—
Huffy	5	11	5	8	7	25
Franklin	4	—	3	—	8	—
Garcia	4	5	3	5	4	5
Berkley	3	—	4	—	1	—
Academy Broadway	3	—	2	—	11	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Sporting Goods
Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Wilson	32%	28%	39%	28%
Coleman	29	18	30	43
Spalding	19	18	36	25
Zebco	9	17	21	15
MacGregor	8	7	9	7
Huffy	2	5	6	7
Franklin	11	3	2	—
Garcia	2	2	4	7
Berkley	—	4	5	—
Academy Broadway	15	3	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Sporting Goods
How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Wilson	28%	37%	32%	61%
Coleman	30	21	30	28
Spalding	23	24	30	42
Zebco	22	24	5	—
MacGregor	25	—	2	3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

The success of best performers, according to store managers, was attributed to vendor advertising, brand recognition and product performance. (DSN photo)

Oils and Filters Top Auto Brands Rankings

Nationwide DSN Report

Quaker State again surged to the No. 1 spot on *DSN's* Top Brands Survey, bypassing Pennzoil, last year's top brand.

After four years of being No. 2, last year Pennzoil edged out Quaker State for the top spot on the 1988 survey by one percentage point, but lost that edge and slipped back to second place.

In fact, Quaker State surged past Pennzoil this year, overtaking the No. 2 brand by 11 percentage points.

Quaker State's surge was largely due to substantial advances at K mart and Target, to a lesser degree at Wal-Mart, and in all four regions.

But the advance was tempered by a dramatic decline at Ames/Zayre, a result, no doubt, from the readjustment of product lines resulting from Ames' acquisition of Zayre earlier this year.

Still, Quaker State advanced on the survey despite financial problems that have prompted it to surrender less profitable sales.

Four out of 10 discount store managers named the popular motor oil label as a top performing brand in the automotives department, a gain of 10 percentage points from last year.

Among upscale discounters, Quaker State more than doubled the number of mentions it got last year.

Pennzoil was mentioned as a top performing brand by roughly the same number of managers this year as in 1988.

Nearly three out of 10 store managers said Pennzoil was a top performer in automotives, two percentage points less than a year ago.

Top Performer

Store managers from all four discount chains mentioned Pennzoil as a top performer more often this year than in the prior year. Wal-Mart managers named Pennzoil more than twice as often this year as last year and one-fourth the Target managers mentioned the brand as a top performer, an increase of nearly 300 percent.

Pennzoil was the top performer at Target followed by Quaker State and Fram.

Continuing the trend of the past few years, motor oils and oil filters again dominated the Top 10 list, accounting for six of the top brands. However, in 1988 motor oils and oil filter labels accounted for eight of the top 10 brands. Taking their place are other automotive maintenance products.

Overall, eight of last year's top 10 performing automotives brands returned to the list in 1989. Also, with two additions and two subtractions, a slight reshuffling of ranking was recorded.

New to the Top 10 list this year is AC-Delco and Turtle Wax, which are tied for ninth.

AC-Delco's rise may be due to its attempts at increasing its presence in the market.

AC-Delco and Turtle Wax replaced Armor All and Champion, which tied for ninth on the 1988 survey.

This year, Armor All is tied for 14th with Black & Decker and General Electric. Champion fell one spot to 11th even though it developed a line of other products, including filters, and licensed its name to GNB for auto batteries.

The decline of Armor All is surprising. Armor All introduced its own line of auto waxes in an attempt to build on the strength of its protectant.

In addition, last year Armor All bought the Rain Dance and Rally wax lines from Borden.

The top 10 list is as follows for 1989: Quaker State and Pennzoil in the one-two positions; Valvoline in third; Fram, fourth; Havoline, fifth; STP, sixth; Prestone, seventh; Castrol/Castroil, eighth; AC-Delco, ninth; and Turtle Wax, 10th.

The current standings reflect numerous position changes from 1988. They are: Valvoline's move to No. 3 from No. 6; STP up one spot to sixth; Fram down one to fourth; Havoline down one to sixth; and Prestone down two to seventh.

Castrol was the only brand to stay in the same position as a year ago.

The success of any one brand in the automotives department is largely due to advertising, store managers report.

In fact, advertising was the No. 1 factor store managers attributed to the success of automotive brands, unlike all of the other merchandise categories surveyed in the 1989 Top Brands report.

Nearly eight out of 10 store managers said that advertising is the reason for the success of top performing automotives brands, followed by brand recognition and product performance.

Advertising was mentioned as the top consideration by nearly all the managers who said Pennzoil was a top performer and by nearly as many who said Havoline. Brand recognition was second and product performance third for both labels.

Of the five specific automotive labels mentioned by store managers as top performers in automotives only Quaker State and Valvoline produced different results.

Store managers said the prime attribute for the success of Quaker State and Valvoline is product performance. Price was the second consideration for Quaker State but the third reason for Valvoline, according to survey results.

When managers were asked what automotives label they would like to have in their stores the answer was No. 4 ranked STP.

STP showed impressive increases in the regional breakdown but the responses at each of the four chains were inconclusive.

The biggest advance on the Top 10 Survey in automotives this year was by Valvoline. This was probably due to the company's major push into mass market distribution.

In addition, Valvoline was the No. 1 automotives label at Wal-Mart. Quaker State was second, followed by Pennzoil and Fram tied for third.

No. 4 Fram, which was nudged out of third place by Valvoline, was mentioned more often this year by Wal-Mart managers as a top performing automotives brand than in 1988. But Fram recorded big declines at Ames/Zayre and Target.

Still, Fram was the No. 2 ranked automotives label at Ames/Zayre and the No. 3 brand at Target.

Havoline, Texaco's oil brand, may have slipped a notch to fifth place but remained the No. 1 label at Wal-Mart.

Nearly half the Wal-Mart managers surveyed said Havoline is their top performer, followed by Quaker State and Pennzoil and Fram tied for third.

Quaker State was the No. 1 brand at K mart, followed by Pennzoil Valvoline, Fram and Prestone.

Target managers mentioned Pennzoil more often than Quaker State for the No. 1 position. Fram was third and AC-Delco is fourth.

Automotives: Top Brands Vary by Type of Outlet

	All Discounters		Conventional Discounters		Upscale Discounters	
Brand	**1989**	**1988**	**1989**	**1988**	**1989**	**1988**
Quaker State	39%	29%	39%	31%	41%	19%
Pennzoil	28	30	28	31	27	26
Valvoline	18	11	19	12	12	9
Fram	17	22	16	20	26	30
Havoline	14	17	16	20	6	5
STP	12	9	12	10	10	3
Prestone	9	14	8	13	12	24
Castrol/Castroil	8	8	6	7	16	15
AC-Delco	5	—	5	—	8	—
Turtle Wax	5	—	5	—	4	—

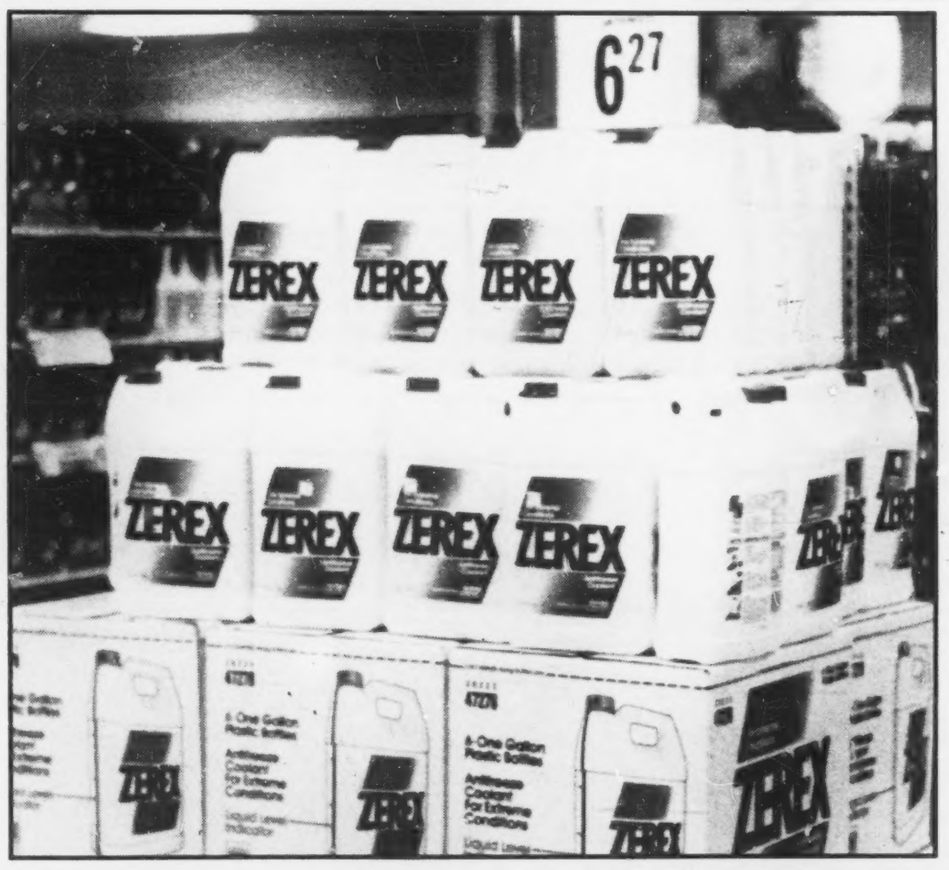
Source: Discount Store News/Leo J. Shapiro & Assoc.

Prestone was seventh overall on a brands list dominated by oils like Quaker State, Pennzoil, and Valvoline. (DSN photos)

Automotives
How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Quaker State	47%	26%	59%	44%
Pennzoil	42	21	25	53
Valvoline	22	11	9	22
Fram	15	21	32	31
Havoline	7	47	11	11

Source: Discount Store News/Leo J. Shapiro & Assoc.



Automotives
Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Quaker State	37%	34%	48%	38%
Pennzoil	17	16	44	37
Valvoline	9	16	22	20
Fram	22	12	17	23
Havoline	2	22	14	11
STP	15	17	9	4
Prestone	8	7	6	20
Castrol/Castroil	12	8	8	3
AC-Delco	4	4	10	—
Turtle Wax	7	8	2	—

Source: Discount Store News/Leo J. Shapiro & Assoc.

Stanley Nails Down Top Performing Position

Nationwide DSN Report

For the second consecutive year, Stanley was named by store managers as its top performing brand in the hardware category, according to results of *DSN's* 1989 Top Brands Survey.

Stanley again edged out Black & Decker for the top spot on the hardware list by just two percentage points, the same margin as last year.

Both hardware manufacturers were mentioned by more than half the store managers interviewed for the survey. In addition, each vendor increased their respective response rates by one percentage point. This small increase helps each manufacturer recover some of the ground lost over the past few years when store managers named each brand more often as a top performers than they do now.

Stanley's hold on the No. 1 spot was tied with Black & Decker among conventional discounters but 14 percentage points above B&D among upscale discounters.

The two manufacturers were split evenly at the nation's top four discount chains, with K mart and Wal-Mart giving the top honors to B&D and Ames/Zayre and Target doing likewise for Stanley.

Among the discounters on a regional basis, Stanley edged out Black & Decker three-to-one, reversing the results of last year.

Top Honors

B&D took top honors in the North Central states, by a slim two percentage points, whereas Stanley held the top spot by slim margins in the Northeast and South and by a substantial margin in the West.

The No. 3 finisher, General Electric, was a distant third with fewer than one in 10 store managers naming the brand as a top performer in the hardware category.

GE's major products in the hardware category are light bulbs, a major item mover for discounters.

In fact, GE's substantially increased its dominance as a top hardware performer, according to manager responses. GE-brand products were sixth on the Top brands list last year.

Of the Top 10 brands on the hardware list, this year seven returned. (Thirteen brands were listed last year since five tied for ninth place.)

Except for Stanley and B&D, which held firm on the top two spots, the rest of the brands jockeyed for position.

Not returning this year to the Top 10 list were Genie garage door openers, Olympic Paint, Red Devil stains, Dutch Boy paint, Vermont American hardware accessories and Master Lock.

Genie dropped to 12th place, Master Lock to 13th, Dutch Boy, 14th, and Vermont American, 15th. Olympic Paint and Red Devil were not mentioned at all as top performers.

In fact, just 15 labels were mentioned by store managers as top performers in the hardware category, fewer mentions than every other merchandise category except personal care appliances, which also had 15.

After Stanley and B&D, the Top 10 list consisted of GE in third; Skil, fourth; Lucite, fifth; Rubbermaid, sixth; and Royal, Bull Dog, Glidden and Great Neck tied for the last four positions.

Skil, a power tool manufacturer that says it does not sell directly to discounters, moved up from ninth last year. Many discounters, however, report that they do not purchase Skil products from diverters and do purchase directly from Skil.

Rubbermaid, which dropped off the Top 10 list last year to the 16th spot, returned this year, even though the response rate was minimal. The plastics manufacturer offers a variety of products in the lawn and garden area and in trash disposal. Also Rubbermaid introduced workshop organizers that are sold in the hardware department.

Royal Tools returned to the Top 10 list for the second year in a row, but in a diminished position.

New to the list this year were Bull Dog and Great Neck, both hardware accessories manufacturers.

Both Lucite and Glidden, prominent paint manufacturers, suffered declines on the current survey. Lucite fell from third to fifth place, and Glidden from fourth to ninth.

It is important to note that Wal-Mart dropped Lucite from its vendor list and added both Glidden and Dutch Boy's Kemtone brands in many stores.

However, the entire paint and stains category, once a large presence on the Top 10 list in the hardware category—with five entries last year—has apparently waned in dominance at discount stores, perhaps due to restricted merchandise mix resulting from expansion in other higher margin, faster-turning product categories. This year, just Lucite and Glidden represent the coatings category.

In the regions, the Top 10 hardware brands received its most favorable responses from retailers in the South and North Central states. Northeastern and Western retailers gave very few mentions of top performing brands beyond naming Stanley and Black & Decker.

Among the chains, Stanley and B&D were the clear top brands labels, with all the rest of the products receiving very few if any responses.

When asked what hardware brands they would like to have in their hardware departments, store managers again named Black & Decker and Stanley.

Stanley and Black & Decker are popular with store managers as top performers because of product performance, vendor advertising schedules and brand recognition, they say.

Price a factor

Price was mentioned as a factor by half the managers surveyed compared to eight of 10 respondents who said product performance, advertising and brand recognition, according to survey results.

In fact, nearly nine of 10 store managers said Stanley is a top performing brand because of the product's performance, compared to eight of 10 for B&D.

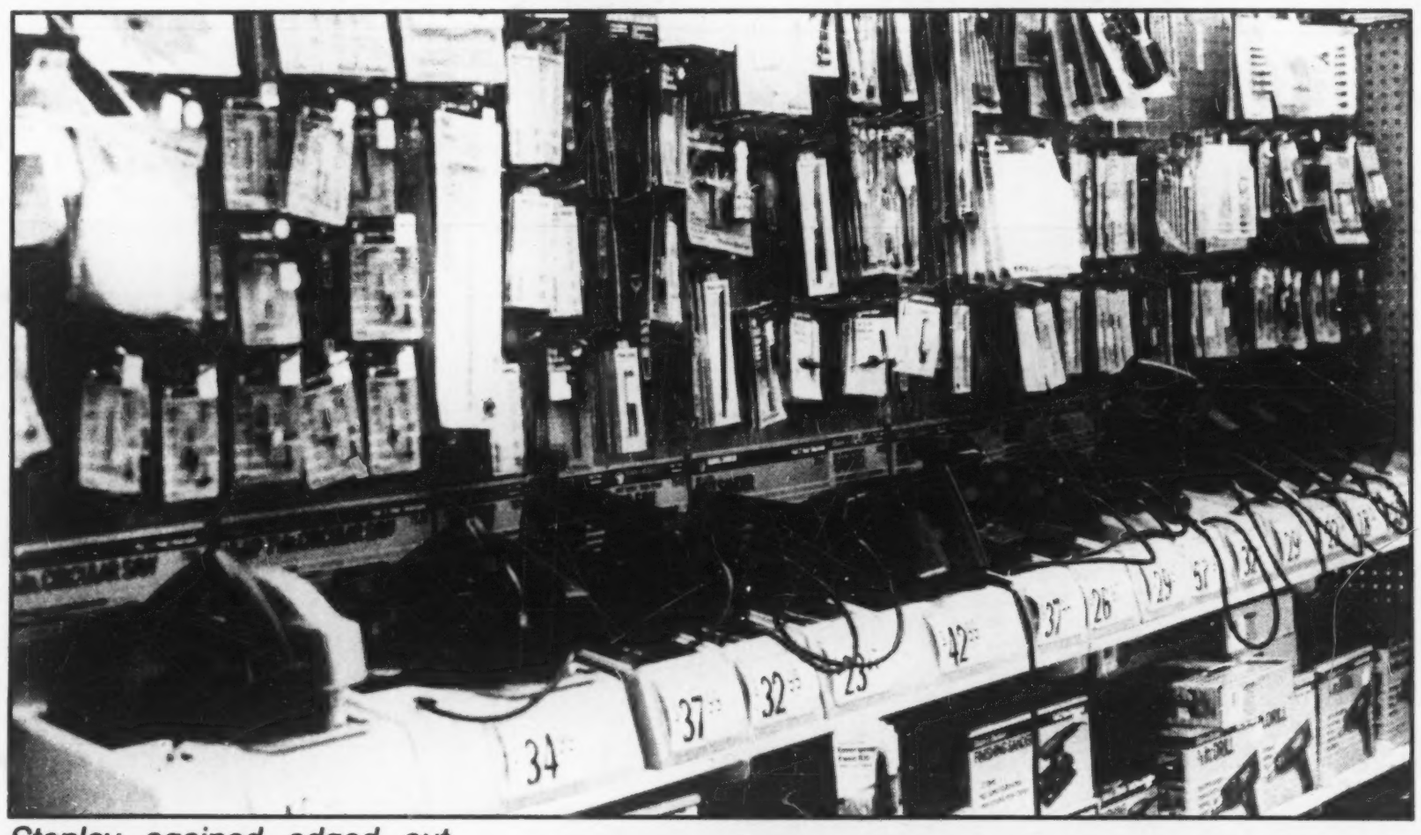
Advertising was the second strongest consideration for Stanley products, store managers said, and brand recognition was third.

However, brand recognition was the second consideration for B&D-brand products, and advertising was third, according to store manager responses.

Hardware: Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Stanley	57%	56%	55%	55%	68%	61%
Black & Decker	55	54	55	54	54	53
General Electric	8	3	7	2	12	6
Skil	4	1	4	1	2	—
Lucite	3	9	3	10	1	7
Rubbermaid	2	—	1	—	5	—
Royal	1	2	2	2	—	—
Bull Dog	1	—	1	—	—	—
Glidden	1	6	1	4	2	13
Great Neck	1	—	0	—	3	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*



Stanley agained edged out Black & Decker for the top performer position in the hardware category. (DSN photos)

Hardware: Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Stanley	70%	49%	61%	60%
Black & Decker	68	47	63	46
General Electric	4	7	13	5
Skil	—	3	8	3
Lucite	2	5	1	—
Rubbermaid	—	2	3	—
Royal	—	4	—	—
Bull Dog	—	2	1	—
Glidden	—	1	2	—
Great Neck	—	—	1	3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Hardware: How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Stanley	77%	50%	77%	69%
Black & Decker	80	63	61	58
General Electric	7	11	7	3
Skil	—	—	—	6
Lucite	—	3	9	3

Source: Discount Store News/*Leo J. Shapiro and Assoc.*

No Kidding, Fisher-Price Again Tops Survey

Nationwide DSN Report

Fisher-Price grabbed a bigger slice of the toy market in the past year and once again was the most often mentioned toy brand by discount store managers, according to results from *DSN's* 1989 Top Brands Survey.

The Aurora, N.Y.-based toy and juvenile products manufacturer also extended its lead over second-place Mattel. More than twice the number of store managers named Fisher-Price as a top performing brand than mentioned Mattel.

Fisher-Price was named as a top performer by nearly seven of 10 store managers surveyed, up from five of 10 last year. Mattel was mentioned as a top performing brand by one-third the surveyed managers, up two percentage points from the 1988 survey.

Mattel's hold on the No. 2 spot is a bit tenuous, however.

The third place finisher, Playskool, with one-quarter of all the store manager responses, along with Milton Bradley (No. 5) are divisions of Hasbro (No. 6). If the results of these three are combined, Mattel would lose its second berth.

The Hasbro companies received a total of four of 10 store manager responses as best performers, enough to take over the No. 2 spot, but still more than 20 percentage points behind No. 1 Fisher-Price.

Taken separately, as they are named by the store managers, Mattel holds firmly to its No. 2 spot.

No toy label matched the growth in prominence of Fisher-Price, according to survey responses.

Much of Fisher-Price's gain this year was due to the 13 percentage point increase by conventional discounters, particularly K mart.

Nearly eight of 10 K mart managers named Fisher-Price as a top performer this year compared to fewer than four of 10 last year. Two-thirds of Wal-Mart managers supported the Fisher-Price gain by naming the toy label, up from half the responses last year. Ames/Zayre named Fisher-Price slightly less often this year, eight of 10 managers compared to nine of 10 mentions a year ago.

Target managers also gave Fisher-Price higher marks this year than last. Nine of 10 managers named Fisher-Price as a top performer compared to six of 10 last year.

Fisher-Price recorded substantial gains by retailers in the West, North Central states and, to a lesser degree, in the Northeast and South.

But Fisher-Price wasn't the only toy brand to receive a higher rate of mention this year than on the 1988 survey.

Mattel, the second-place finisher, recorded gains among conventional discounters, in the Northeast and Southern regions and at K mart and Wal-Mart.

The top toy brands list consisted of eight of last year's 10 products.

Coleco, the No. 6 finisher last year when it was in Chapter 11 bankruptcy, fell to 17th this year, tied with Gay, Child Guidance and Tyco. Earlier this year, Coleco's assets—and its Cabbage Patch dolls—were purchased by Hasbro.

Parker Brothers, ninth on the 1988 survey, fell to 11th place this year, probably a result of the slump in the board game category.

Milton Bradley, also a manufacturer of board games, slipped slightly on the top 10 toy list. The popular board game manufacturer was fifth on the 1989 survey, down one notch from the year-earlier report. The company's position among upscale discounters was enhanced on the current survey, however.

Little Tikes, No. 4 on the current survey, up two notches from last year, was the only toy label to advance on *DSN's* Top Brands toy list.

A division of Rubbermaid, Little Tikes, was named by nearly one-fifth of surveyed store managers as a top performing brand, up from one-tenth of them a year ago.

Little Tikes advanced among conventional and upscale discounters and in all four regions, particularly in the West. Little Tikes juvenile products also made the top five toy brand list of the nation's top four discounters for the first time.

Rounding out the top 10 list in the toy category are Lego and Kenner, tied for seventh place, Tonka in eighth and Huffy, 10th.

Lego and Tonka are new to the toy list this year. Perennial favorites, these brands have been gaining ground recently. Tonka may already be benefitting from the introduction of its Hyper Drivers, super fast miniature racing cars that sell for about $7.99.

Huffy, also 10th on last year's survey was able to hold on to its No. 10 spot. However, Huffy's status weakened slightly from last year in the number of manager responses calling it a best performing brand, probably because of the decline in bicycle sales.

The No. 1 performer at each of the nation's top four discount chains was Fisher-Price, according to store manager responses, but after that the order varies.

At K mart, Mattel was second to Fisher-Price, followed by Playskool, Milton Bradley and Little Tikes.

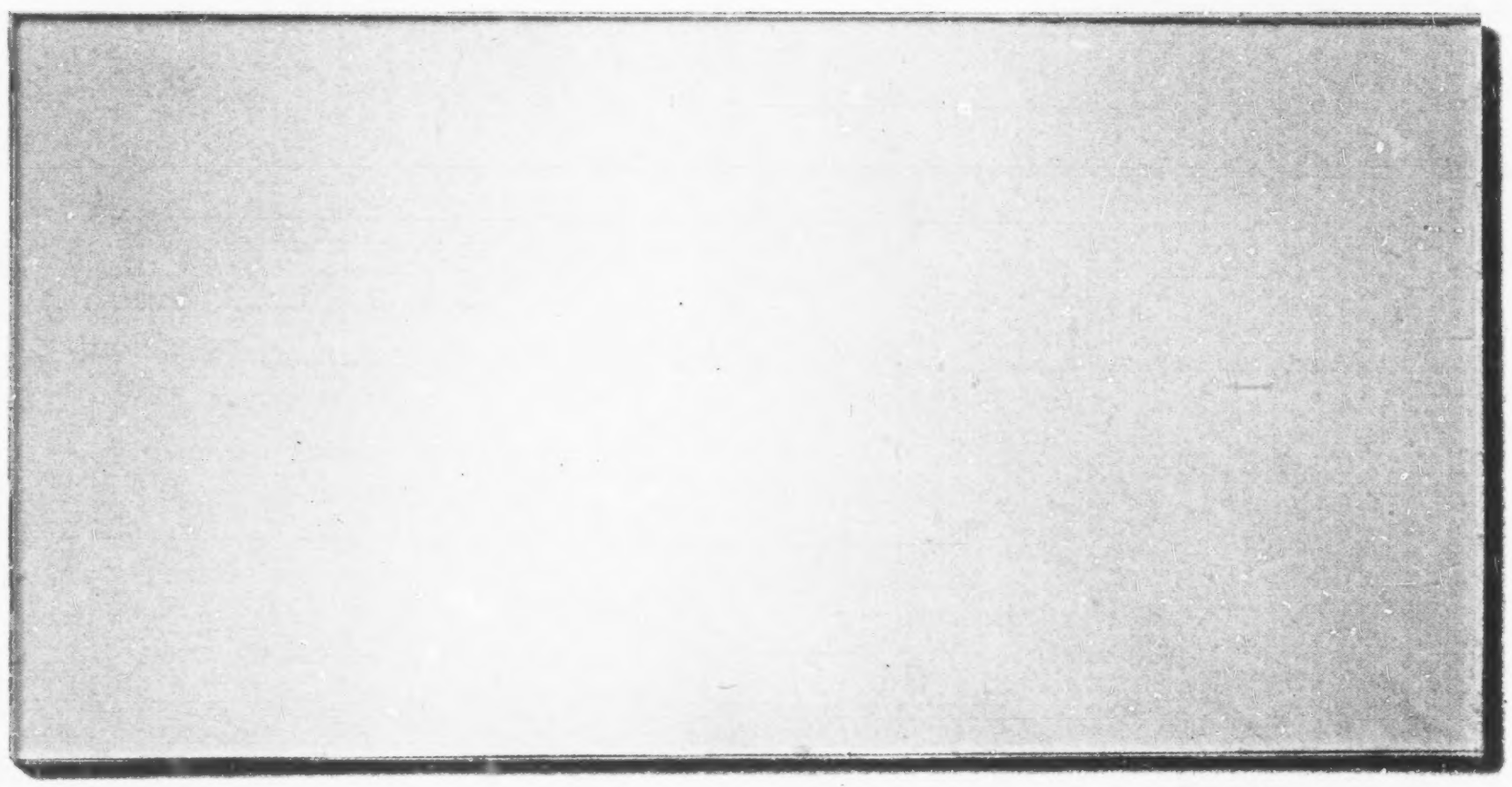
Wal-Mart managers said their best performing brands, in order after Fisher-Price,

(Continued on page 159)

Toys: How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Fisher-Price	77%	66%	84%	89%
Mattel	38	32	25	33
Playskool	28	13	27	42
Little Tikes	22	24	2	17
Milton Bradley	23	3	14	6

Source: Discount Store News/*Leo J. Shapiro & Assoc.*



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Toys: Top Brands' Performance by Region				
Brand	Northeast	South	North Central	West
Fisher-Price	84%	56%	74%	53%
Mattel	34	36	24	37
Playskool	25	17	26	33
Little Tikes	16	13	23	12
Milton Bradley	12	8	16	9
Hasbro	8	9	6	8
Lego	5	4	4	9
Kenner	1	3	7	5
Tonka	3	3	3	3
Huffy	5	2	4	—

Source: Discount Store News/Leo J. Shapiro & Assoc.

Mattel's Barbie Doll product line is one reason the toy manufacturer has placed second in the toy survey. (DSN photo)

Product Performance is Most Often Cited Factor in Voting Fisher-Price

(Continued from page 158)
were Mattel, Little Tikes, and Playskool, with Hasbro and Murray bicycles tied for fifth.

Top toy brands were less clear at Ames/Zayre. There Fisher-Price took a clear first place but after that no real rankings are clear. It appears that Playskool and Mattel are top performers for Ames/Zayre toy departments.

Target store managers clearly give Fisher-Price the top spot in the toy department followed by Playskool and Mattel. After that the rankings become hazy. Little Tikes does fare well, according to responses by Target managers, and apparently got the fourth place spot.

The success of toy labels at discount stores is largely a function of three qualities: product performance, brand recognition and vendor advertising, in that order.

Store managers report that product performance is the biggest factor in the successful sale of Fisher-Price and Playskool-brand toys. Brand recognition and advertising are second and third considerations for Fisher-Price but are of equal importance for Playskool.

But brand recognition and vendor advertising tie for greater importance in the sale of Mattel products. Product performance figures less prominently for Mattel toys, according to the managers.

Toys: Top Brands Vary by Type of Outlet						
Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Fisher-Price	66%	54%	63%	50%	77%	76%
Mattel	32	30	33	29	24	33
Playskool	24	25	23	24	29	29
Little Tikes	16	11	16	11	19	14
Milton Bradley	11	15	10	15	18	14
Hasbro	8	12	8	13	5	10
Lego	5	—	5	—	5	—
Kenner	5	8	5	8	4	6
Tonka	3	—	3	—	1	—
Huffy	3	4	3	5	—	2

Source: Discount Store News/Leo J. Shapiro & Assoc.

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Managers Have a Sweet Tooth for Hershey

Nationwide DSN Report

Hershey's strengthened its hold on the No.1 spot on *DSN's* Top Brands Survey in the food, candy and snacks category, rebounding from last year's weakened position to above 1987 levels.

The Hershey, Pa.-based candy manufacturer also widened its lead over its closest brand rival, Mars, which made dramatic advances from the 1988 survey.

Mars, which ranked seventh last year according to store manager responses, finished second this year and with a greatly improved response level.

One-third of all store managers surveyed for the Top Brands Study reported that Hershey's was their best performing brand in the food, snacks and candy category, followed by Mars with three in 10 responses. In the 1988 survey, just one in 10 store managers named Mars as a top performing brand.

Frito Lay, for years the first-place finisher in the category, was third on the current survey, rebounding three notches from last year's dramatic fall to sixth place. One-fourth of all store managers surveyed named Frito Lay as a top performing brand compared to a response rate of just under one-fifth the store managers in the 1988 survey.

Frito Lay, makers of Fritos corn chips and Lays potato chips, among other products, manufactures no products under the corporate name but continues to be named by store managers as a brand. Nabisco products, which also made the top 10 list, similarly does not produce food under its corporate name but under such labels as Oreo cookies and Wheat Thins crackers.

The remaining top 10 brands (in order) were: Brach's, Planters, Snickers, M&M's, Sather, Nabisco and Coke.

Coca-Cola returned to the top 10 list after a brief absence and constitutes the only beverage on the top 10 brands list. Pepsi came in 12th.

Nabisco, which moved up one notch this year to the ninth position, and with a slightly improved response rate, was again the only "food" brand mentioned in the top 10 of the food, snacks and candy category. Little Debbie snack cakes was 11th.

Once again, confectionary products dominated the top brands list. This year, however, just six brands were confectionary, two [Planters and Frito Lay] were snack foods, one was a food and another, a beverage.

Last year, seven of the top 10 brands were confectionary products, two were snacks—the same ones as this year—and there were no beverages.

These results could be an indication that discounters are becoming more successful at merchandising and selling consumables.

Generally, there was little shake-up in the brands on the top 10 list. Nine brands stayed

(Continued on page 161)

Food, Candy, Snacks
How Industry's Top 5 Fare at Chains

Brand	K mart	Wal-Mart	Ames/Zayre	Target
Hershey's	37%	24%	36%	25%
Mars	38	13	32	33
Frito-Lay	25	55	25	28
Brach's	15	11	14	6
Planters	18	5	9	22

Source: Discount Store News/Leo J. Shapiro & Assoc.

Hershey took the lead in this category, followed by Mars. (DSN photo)

Other lighting companies can't hold a candle to ICI's merchandising program.

Food, Candy, Snacks Top Brands Vary by Type of Outlet

Brand	All Discounters		Conventional Discounters		Upscale Discounters	
	1989	1988	1989	1988	1989	1988
Hershey's	33%	22%	33%	21%	30%	28%
Mars	30	13	30	13	32	14
Frito-Lay	25	18	25	20	28	8
Brach's	16	19	18	21	5	11
Planters	15	20	14	17	24	31
Snickers	15	21	17	20	8	28
M & M	14	20	12	18	26	30
Sather	8	13	9	15	—	—
Nabisco	7	6	8	6	1	3
Coke	5	—	3	—	11	—
Little Debbie	4	—	4	—	1	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Food, Candy, Snacks Top Brands' Performance by Region

Brand	Northeast	South	North Central	West
Hershey's	72%	27%	35%	47%
Mars	35	24	30	42
Frito-Lay	21	22	33	22
Brach's	13	15	20	11
Planters	29	13	15	5
Snickers	9	12	20	17
M & M	12	11	14	21
Sather	5	12	3	11
Nabisco	8	8	6	5
Coke	2	5	8	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Mars, Frito Lay, Follow in Store Performance

(Continued from page 160)
on the top 10 list, although they did alter their positions slightly. Milky Way candy bars were the only brand to fall off the list and Coke was the only new addition.

Milky Way fell to 19th on the brands survey. Twenty-seven brands were mentioned as top performing brands in this survey.

Hershey's was mentioned as the top performing brand in almost every category: outlet type, region of the country and specific discounter. There were five exceptions.

Mars bars unseated Hershey's as the top performer at upscale discounters, among Northeastern discounters and by K mart store managers.

Responses by Target store managers put Hershey's in third place as a top performer, behind Mars and Frito Lay.

Frito Lay was the top performing brand, by far, at Wal-Mart, unseating both Hershey's and Mars. More than half the Wal-Mart store managers interviewed for this survey said Frito Lay was a top performing brand. Second to Frito Lay was Little Debbie snack cakes, with more than a quarter of the responses. Hershey's was third followed by Nabisco and Ocean Spray and Mars tied for the fifth spot.

Also noteworthy on this year's Top Brands survey is that Snickers, last year's second place finisher, with two in 10 store manager responses, fell six percentage points on the 1989 survey to sixth place.

Last year, Snickers candy bars was second, behind Hershey's on that list. M&M's was third after Snickers.

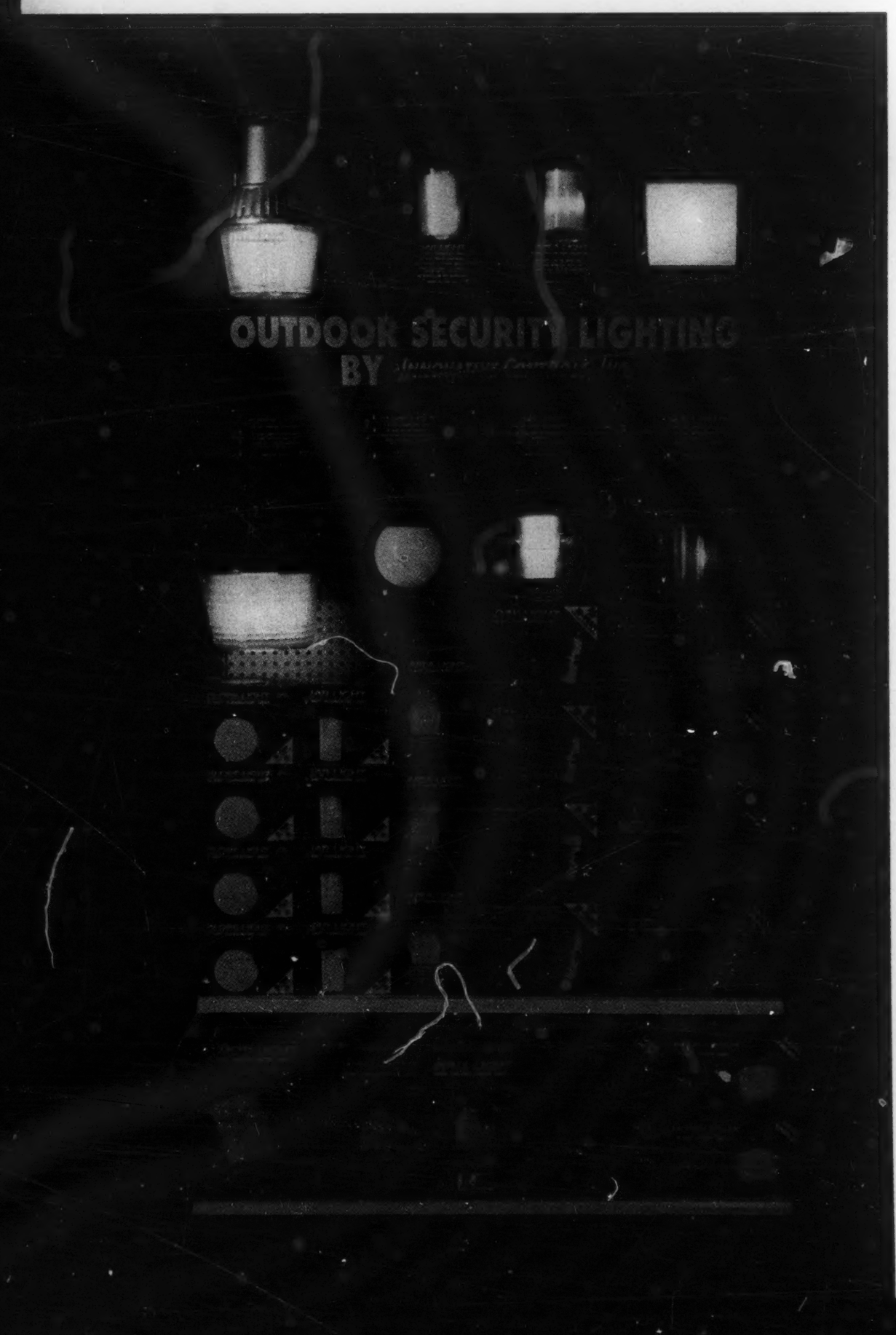
Snickers' best showing among the discount chains was at K mart. One-fifth of K mart's store managers named Snickers as a top performing brand, giving it a fourth place spot. Mars was the No. 1 finisher at K mart, based on store manager responses, followed by Hershey's and Frito Lay.

Target store managers gave M&M's its best showing. M&M's came in second as a top performing brand, according to responses by Target store managers, behind Mars.

Target store managers also gave Hershey's its poorest showing. Just 25 percent of the store managers at this upscale discount chain named Hershey's as a top performing brand, giving it a fourth place finish.

At Ames/Zayre, M&M's placed fourth behind Hershey's, Mars and Frito Lay.

In contrast to many of the other categories, store managers reported that their top brand in the food, candy and snacks category achieved that position mainly due to its sales volume. The second most often mentioned attribute of a top brand in this category is price followed by impulse buying.



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Area Discounters Weather Hugo's Destruction

(Continued from page 7)

Relief efforts were operating in high gear at presstime, with the relief center in Charleston inundated with "hundreds and hundreds of truckloads" of donated relief supplies pouring in from around the country.

"We're swamped with a lot of everything," said one of two Wal-Mart truck drivers from the Wal-Mart distribution centers in Laurens, S.C., who were assigned to Charleston's major relief center in the city's Gaillard Auditorium.

To help coordinate the handling of relief goods, Wal-Mart assigned Martin Novak, head of its DC in Douglas, Ga., to the Gaillard center.

Various vendors were shipping in donated supplies, the driver said, including Tru-Valu, hardware; Shop-Vac, wet vacuums to clean up mud and water from flooded homes and businesses; and Kimberly-Clark, Kleenex, paper towels and disposable diapers.

Chain saws to clear downed trees and portable generators to supply power were especially in demand. At Charlotte-based Homelite, company executives trucked chain saws from a nearby plant to corporate headquarters on the Monday following the storm, said Robert Rhodes, advertising manager. Traffic jams formed as customers snapped up 2,500 chain saws that day at 10 percent below retail.

The relief efforts of discounters included cash donations, shipment of vendor-donated goods, discounts on merchandise, donations of merchandise from inventory, including diapers and bottled water, and donation drives mounted at individual stores.

Wal-Mart and an undisclosed number of its vendors were shipping $1 million worth of goods (at Wal-Mart retail prices), a spokeswoman said. Wal-Mart shipped the goods in its own trucks.

The spokeswoman refused to name the vendors cooperating in the joint effort.

K mart contributed $70,000 to the Red Cross, said Bob Stevenson, head of corporate public relations, and shipped three truckloads of disposable diapers and two loads of bottled water. The truck trailers were parked at K mart stores, and residents could get a free box of diapers and four gallons of water.

In addition, K mart shipped a truckload of plywood and 2x4 lumber for storm victims.

"We would have sent more, if we could locate it," Stevenson said, but hard-hit Puerto Rico siphoned off most of such lumber in a five-state area.

At its nine damaged units, Rose's sold chain saws at cost and offered a 10 percent discount on all merchandise to customers, said McElroy. In addition, Rose's donated two truckloads of goods taken from its inventory samples for the relief of residents of Sumter, S.C., one of the most devastated communities, he said.

Brendle's opened its 42 stores as community collection centers for food and clothing donations, said David Brendle, advertising manager. Brendle's has shipped 26 truckloads of donated goods to the Salvation Army in Charleston, he said.

In addition, employees collected money to aid the 52 associates in the damaged stores, said Jim Whitaker, director of human resources. Brendle's is also considering ways to help employees who lost their homes in the storm.

At Marshalls' undamaged stores, employees mounted cash and clothing drives to aid fellow workers at the two damaged stores, said communication director Jane Maxwell. "Marshalls will match whatever money the employees contribute," she said.

In addition, "we will assess whatever needs to be done for the community at large," Maxwell said. The priority, however, is to help Marshalls employees recover from their losses, Maxwell said.

Target shipped a truckload of diapers and is mounting employee donation drives at stores in the eastern half of the country, said public relations director George Hite.

The stores are boxing goods collected, and Target is shipping the supplies to relief centers in Charleston and Charlotte, Hite said.

Price Savers Returns to Fast Lane

(Continued from page 5)

ago and has experienced substantial improvements in accuracy and checkout time.

"In terms of innovation, other warehouse clubs are starting scratch bakeries," Grimm told *Discount Store News*. "Well, I can go out and get baked goods just as fresh as they can bake them. Is that what innovation is all about? I don't think so!"

Grimm, warming to merchandising leadership, stressed that all Price Savers' associates are encouraged to think like merchants. He went on to point out some examples of products that show Price Savers' merchandising flair. For instance, "we were the first to carry the new AT&T word processor," he said.

The new location has a much larger toy department than most other clubs, which typically treat toys as a seasonal product at Christmas time.

"We were the first [warehouse club] to do toys on a regular year-round basis," said executive vice president Doug Hansen. "The amount of inventory we carry varies by building, but we get a lot of interest from small gas station owners and restaurants who will buy toys or dolls in quantity from us for resale.

"It's been a surprisingly good category for us," he said.

Another unexpected bonus has been tire sales. Hansen said the new Price Savers augments its five-bay tire shop with an additional two tire mounters after strong sales during the store's quiet pregrand opening week. Michelin and Goodyear are the brands carried and sold by the club.

The next Price Savers is slated to open in February 1990 in the City of Vista, Calif., north of San Diego. Grimm acknowledged that a future public offering was likely to fund further expansion. The timing of such an IPO is "predicated on our performance," which he said was well ahead of projections this year.

Wal-Mart Eyes Richmond Market

(Continued from page 5)

burg, Galax and Martinsville. Targeted communities include South Boston, Staunton, Lexington and Marion.

The Richmond stores—all 110,000 square feet—are in the suburbs of Short Pump, Mechanicsville, Chesterfield and Colonial Heights.

Three of the four Wal-Marts will be in shopping centers being built by the Tri-Equity Group, a Virginia-based real estate partnership, which is constructing at least six retailing and mixed-use developments in the Greater Richmond area.

The other site is owned by Faison & Associates, a North Carolina developer who is working with the discounter on other locations.

Spotting stores in mixed-use centers means that Wal-Mart can draw shoppers from a captive market, the people living and/or working in the development. In effect, the discounter becomes both a local convenience store and a shopping magnet for the wider surrounding area.

The three Tri-Equity centers that Wal-Mart will anchor include:

- The $20.2 million, 325,000-square-foot Short Pump Plaza, an all-retailing center located on Richmond's fast-growing West End;
- The mixed-use $11.5 million, 250,000-square-foot Hanover Square center in Mechanicsville, a rapidly growing community in Richmond's northeast suburbs. A hotel, a movie theatre and offices are planned for the area along with retail space;
- The mixed-use $10 million, 250,000-square-foot Iron Bridge Plaza being developed in the Chesterfield area on Richmond's South Side. The project will include an apartment complex and offices and office warehouse space.

Wal-Mart is pursuing another aspect of its urban strategy at Faison's development in Colonial Heights, also on Richmond's South Side. There the discounter will have a free-standing store on the perimeter of the site housing the 850,000-square-foot Southpark Mall, an enclosed center that has four department store anchors: Sears, JCPenney, Thalhimer and Leggett's. Wal-Mart isn't physically part of Southpark Mall but will easily be seen by customers shopping the center, enabling the discounter to feed off the mall's traffic.

New K mart Draws Crowds

(Continued from page 7)

ber, floor and ceiling tiles, and other such merchandise), the new K mart is carrying Glidden paint everyday at $10.94 a gallon and Dutch Boy at $8.94.

The store also carries unfinished kitchen cabinets at $35.97, on ad, for a two-door base section. Customers usually install them in laundry rooms and basements, rather than kitchens, Palko said. Normally only K marts with expanded home centers carry unfinished cabinets, "but we carry them because they sell," Palko said.

In automotives, K mart has very sharp prices for oils and anti-freeze. The everyday price for top brand oils is 99 cents a quart, he said. That compared with $1.17 at Laneco. For Prestone anti-freeze, the everyday price is $7.77, compared with $9.98 at Laneco.

Over the past year, K mart has cut prices on 8,000 items in order to maintain the same relative spread, including 5,000 since this spring when Sears instituted its everyday low price policy, a K mart manager said.

But that price shaving could be affecting profits, with second quarter earnings slipping 10.9 percent, while sales rising 4.8 percent. Same store sales gained 1.5 percent.

Moreover, the SG&A ratio for K mart crept up to 23.3 percent in the second quarter from 23.1 percent a year earlier, estimated Bernard Sosnick, retail analyst for the Deutsche Bank Group.

That reversed a four-year pattern of improved S&GA ratios for the second quarter, Sosnick said in a September report. The S&GA ratio fell from a 1985 high of 25.0 percent to 23.6 percent in 1986 and dipped to 23.3 percent in the second quarter of 1987 and further to 23.1 percent in the same period last year.

Second quarter sales rose to $7.01 billion in 1989 from $6.68 billion a year earlier. Net income declined, however, to $145 million from $162.8 million in the second quarter of 1988, K mart reported.

Staples Sings 'California, Here I Come'

(Continued from page 8)

projected store count from about 45 in the current fiscal year ending April 1990 to between 137 to 139 in the fiscal year ending April 1993.

At the end of the current fiscal year, Staples expects to have 15 to 16 stores in metropolitan New York, eight in metropolitan Philadelphia, seven to eight in metropolitan Washington, seven in metropolitan Boston and five stores in Ohio—three in Cincinnati and two in Columbus. Three other stores—two in Connecticut and one in Rhode Island—fill in smaller communities in New England.

The long-range growth plans for the Northeast hub calls for 20 new stores each in fiscal years '91, '92 and '93, to hit a total of 105 by April 1993. The California program projects eight to 10 stores in the fiscal year ending April 1991 and 12 units in each of the following years to reach 32 to 34 stores.

As for its Mail Boxes Etc. test, Staples, which pioneered the discount office supply business three years ago, will decide by the end of this year on whether to add the leased 585-square-foot section to other units.

The MBE section, located at the front, provides private mailbox services, including a mail drop and mail fowarding, to individuals and businesses. Some of its other services are secretarial help, telephone answering, instant passport photos, film developing, stamps, Western Union, money orders and faxing.

High-speed and self-service copying and faxing are the core services offered by Staples, so that the MBE test could lead to a major expanding of the chain's services to customers. The MBE services are seen as giving current Staples customers another reason to shop the chain while attracting new business.

Adding the MBE section would be the second time that Staples has turned to a leased operator for a specialized service. It has leased Egghead Discount Software sections in about half of its stores, relying on that company to provide customers with expert service and an augment mix of business software.

DISCOUNT STORE NEWS

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SECOND CLASS

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Kmart Ties the Knot With PACE

No. 1 Discounter Takes the Plunge Into Club Scene

By Kenneth M. Chanko

TROY, Mich. — In a move anticipated by industry observers since mid-month, K mart and PACE Membership Warehouse have executed a definitive merger that finally commits the nation's No. 1 discounter to the growing warehouse club business.

However, even with the $322 million PACE acquisition, K mart is left in a catch-up position vis-a-vis Wal-Mart in the important warehouse club segment. Wal-Mart's Sam's, the second largest warehouse club chain in the country, recorded $3.8 billion in sales last year. The 41-unit Aurora, Colo.-based PACE, the fourth largest club, had sales of $1.3 billion last year.

K mart also has a 51 percent interest in Makro, which operates six warehouse clubs and generated an estimated $300 million in sales last year.

K mart officials refused to comment at this time on expansion plans for PACE.

Under the terms of the merger agreement, a wholly owned subsidiary of K mart will commence a tender offer to purchase all outstanding PACE shares at a price of $23 per share in cash. Any shares not purchased in the tender

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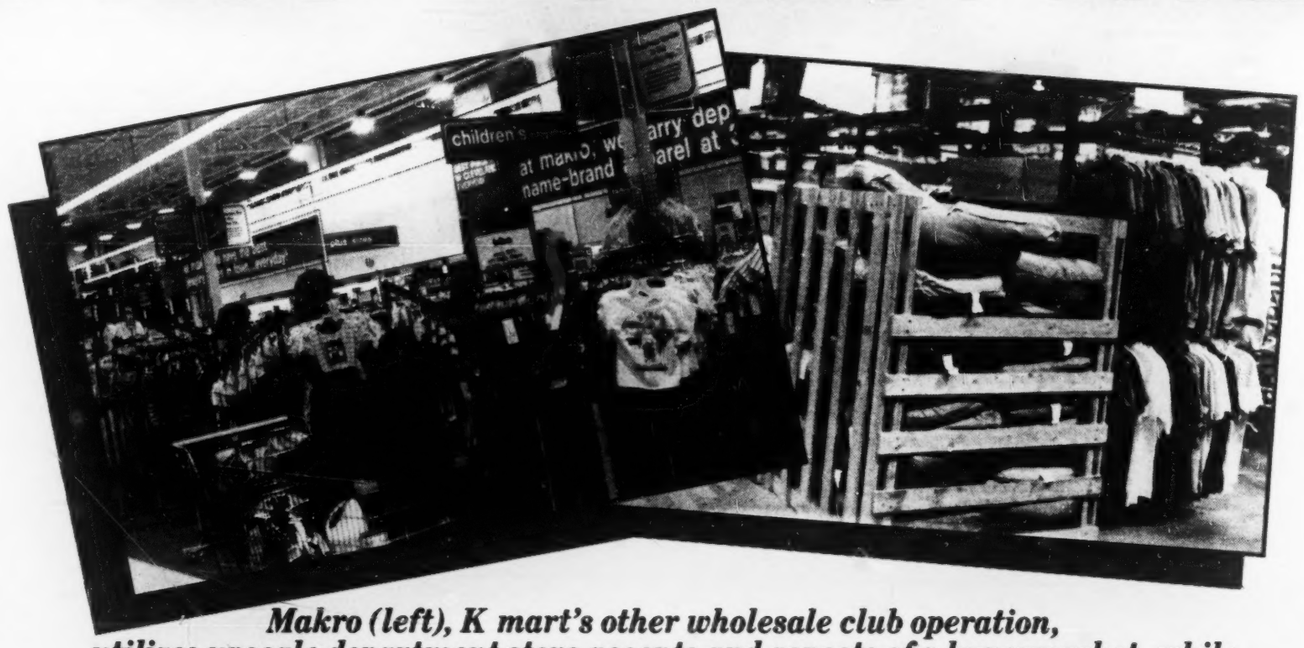


Makro (left), K mart's other wholesale club operation, utilizes upscale department store accents and aspects of a hypermarket, while just-acquired PACE (right) is a traditional warehouse catering to small businesses. (DSN photos)

Antonini Bares Plans to Cure Earnings Blahs

By Tony Lisanti

TROY, Mich. — In the midst of its third consecutive lackluster quarter, K mart Corp. shrugged off modest growth in 1989 and outlined a long-term plan to boost sales to $50 billion and net income to $1.75 billion by 1995.

At a press conference held in mid-October two days after a tough, closed-door meeting with analysts and three days before the PACE acquisition (see story, page 1), K mart's chair-

(Continued on page 65)

Takeovers Send Discount Retail Stocks Soaring in 3Q

By Neil Nordby
Special to DSN

Despite the sharp drop in the market on Oct. 13, almost two years after the Black Monday crash, discounter stocks exhibited a strong performance in the third quarter.

The *Discount Store News* Stock Index of 55 discounter issues marched to another record high during the three-month period ended Oct. 6, thanks to mergers that continued to shake up, shake out and consolidate the industry.

During the third quarter, the *DSN* Index vaulted 118.82 points to 1672.49. In percentage terms, each discounter issue enjoyed an average gain of 7.65 percent.

The widely monitored Dow Jones Industrial Average followed suit during the same period, smashing through its previous record high of 2722.42 (set Aug. 21, 1987) en route to a new all-time high of 2785.52 as of Oct. 6—nearly two years after Black Monday. For the quarter, this index of 30 blue-chip stocks mounted a hefty 252 point, 10.36 percent gain, before plunging 190 points on Friday, Oct. 13.

By Monday, Oct. 16, the market had recovered somewhat easing fears of a repeat of the 1987 crash. However, problems with financing major takeovers and turmoil in

(Continued on page 64)

Caldor, Venture Survive as Chains

Proceeds from Spin-Offs Fall Short of Expectations

By Richard C. Halverson

ST. LOUIS — Despite the convoluted deals that May Department Stores had to devise to divest its Caldor and Venture arms, they *are surviving* as discount chains.

But, if any more proof is needed that discount chains are no longer hot properties, the $800 million cash May will realize from the deals should clinch it. May had hoped to raise as much as $1.5 billion to reinvest in either more profitable department stores or a stock buyback.

Instead, May is selling Caldor for $500 million in cash. And, it is raising only about $300 million from Venture by requiring the chain to borrow that amount and pay the money to May before it spins the chain off to stockholders.

Venture thus would start life as an independent chain with a heavy debt load.

Chains Avoid Fate of Gold Circle, Zayre

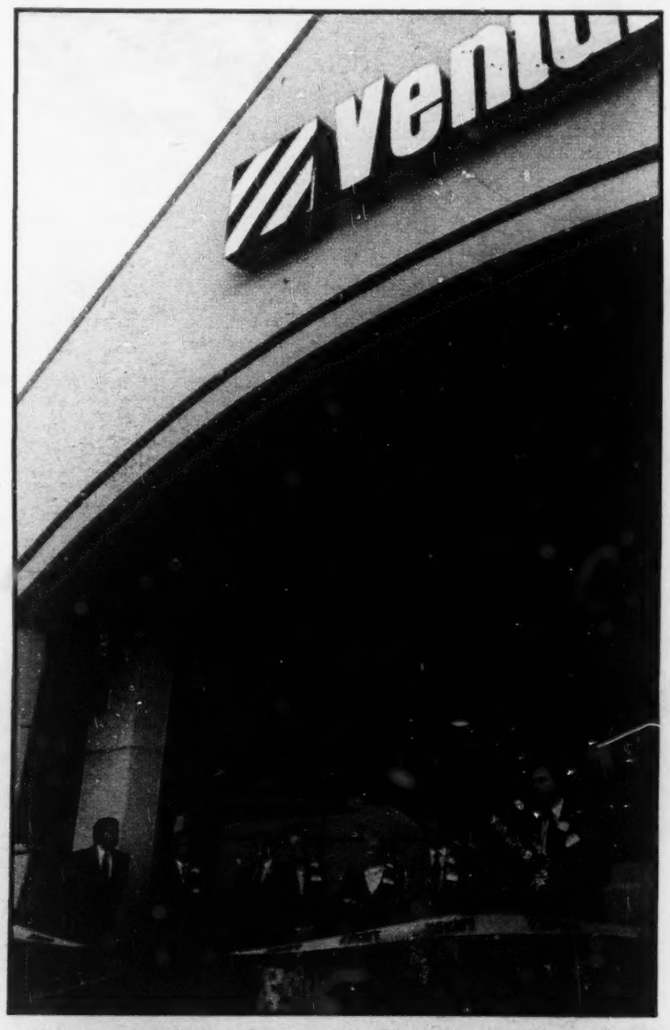
But at least for now, the two upscale discounters aren't going the way of Gold Circle, chopped up last year for its real estate, and Zayre, which Ames acquired, also last year.

Both Caldor, which May acquired in 1985 when it bought Associated Dry Goods, and Venture, which May founded in 1970, are losing access to the $11.2 billion-deep pockets of their department store parent. However, they are also shedding the restrictions that May placed on their growth.

May's announcement that existing management will remain at both chains opens the prospects of unleashing new entrepreneurial spirit at both Caldor and Venture.

The new arrangement "allows us to continue to pursue our long-term business strategies as an independent, ongoing business entity," Caldor chairman Don Clarke said in a statement released by the purchaser, Odyssey L.P., a New York private investment partnership.

Venture president and ceo Julian M. Seeher-



This month in Chicago, Venture opened its 75th store, as May Co. unveiled plans to spin off the discount chain next year. (DSN photo)

man said, "We are excited with the opportunity to operate Venture as a separate, publicly owned and traded company . . . ." Philip G. Otto will remain as chairman after the spin-off, which will take place sometime in 1990.

(Continued on page 9)

Cornell Study Shows Record Profits for Discount Chains

NEW YORK — The efficiency drive by the nation's discounters shifted into high gear over the last year, resulting in substantially lowered expense-to-sales ratios and record net profits.

Posting their highest earnings in over 20 years, discounters' average after-tax net profits in 1988-89 hit 3.16 percent of sales, up from 2.54 percent in 1987-88, according to a study of 22 discount retailers conducted by the International Mass Retail Association.

The study, which was conducted over the summer by Cornell University, revealed that discount retailers have been successful in moving

(Continued on page 68)

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MARKETWATCH

Wal-Mart Beefs Up California Invasion

BENTONVILLE, Ark. — Wal-Mart is expanding the beachhead for its 1990 invasion of California by adding five more sites to those disclosed earlier this year. The new markets are Lancaster, in the Greater Los Angeles area; El Centro, near the Mexican border; and three more in central California: Bakerfield, Ridgecrest and Hanford. They join Madera in central California and Stockton and Elk Grove in northern California.

Jamesway Sets 'Our House' Stores

SECAUCUS, N.J. — Jamesway will call its new home goods specialty stores "Our House." According to a published report, two or three of these 45,000-square-foot stores that will sell linens and housewares are slated to open in New Jersey and Maryland next year.

Information Award to Two Kmart Execs

ATLANTA — The Society for Information Management has presented the 1989 Partners in Leadership Award to K mart's two senior executives who have worked together to integrate information systems with business planning. They are Joseph R. Thomas, executive vice president and chief administrative officer, and David M. Carlson, senior vp of corporate information systems. K mart expects its retail automation program will help reduce its store expense ratio by one and a half percent.

Auto Giant Revs Up

LONG BEACH, Calif. — A.G. Automotive Warehouse has completed its initial public offering that will enable it to open its first Auto Giant 60,000-square-foot warehouse next month in San Bernardino, Calif. The store will carry about 10,000 automotive sku's and include a service center. The offering raised about $6 million from the sales of 1,125,000 units at $6 a unit. A unit consists of four shares each of common stock and Class A redeemable warrants. The company could raise over $26 million should its Class A and Class B warrants be redeemed.

Nintendo Signs Broker for NES System

REDMOND, Wash. — Nintendo of America has signed Fidelity Investments as the brokerage services for the NES interactive shopping and information system that Nintendo's expected to launched next year. The agreement between the two company's calls for Nintendo to develop and manufacture a modem and controller for the NES system while Fidelity, which manages over $100 billion in investment, will develop and market software cartridges for trading securities.

Lionel Ponders Hostile Takeover Offer

NEW York — Lionel Corp.'s board has rejected a hostile takeover tender from the Robert I. Toussie partnership and recommended that shareholders also turn down the offer to buy the 90 percent of Lionel stock the partnership doesn't already own at $8 a share, or $95.4 million. The partnership also offered to buy 90 percent of Lionel's convertible debt for about $28.1 million. The board had previously rejected the partnership's $8.25 a share offer. Lionel operates the Kiddie City toy specialty chain.

Prodigy Now Accessible to Mac Owners

WHITE PLAINS, N.Y. — Prodigy has developed software that will enable Macintosh computer owners to access the interactive shopping and information service. Prodigy previously was accessible only through IBM and compatible machines. The service this month passed the 100,000 household mark as it became available in 22 markets and signed up its 200th client.

HQ Opens 4 Ex-WORKplace Stores

LONG BEACH, Calif. — HQ Office Supplies has opened the four stores in the Greater Los Angeles market that it purchased from WORKplace for about $7 million last month. The stores boost the nine-store chain's count to seven units in Southern California, with another five due to be opened there by the end of the year.

Phone Co. Disconnects Gateway Test Plan

SAN FRANCISCO — Pacific Telesis has dropped plans for its Pacific Bell arm to test a videotex shopping and information gateway, California Online, and instead will focus on developing audiotext services. PacTel, the first regional phone company to cancel a gateway test, said market research showed insufficient consumer user or information provider backing for a successful commercial venture. Computer owners in San Francisco, however, can access Prodigy's interactive service.

Target Plays its Cards Right

Discounter Hopes AmEx Will Boost Sales, Customers

NEW YORK — Target has joined a growing list of discount chains that hope their customers "don't leave home without" their American Express cards.

Moreover, Target, which began accepting AmEx cards at its 401 stores on October 29, hopes that it will gain enough extra customers, who then will check out with higher tickets, to more than make up for the higher cost of American Express transactions, compared to the Visa, MasterCard and Discover credit cards it already accepts.

Charges to retailers range from 3 percent to 4.5 percent of the amount customers charge, said Kathryn Russell, vice president, retail marketing. She acknowledged that its charges are higher than for bank credit cards.

In 1988, AmEx discounts averaged 3.29 percent, *Forbes* magazine reported, compared to 1.96 percent for Visa.

In its sales pitches, which have netted 18 discount chains since 1983, AmEx cites a Management Horizons study it commissioned that concluded that higher profits on extra customers that AmEx brings in more than offset higher charges.

After surveying customers of (unnamed) discount stores, the consulting firm concluded that 29 percent of sales at discounters that accept American Express are incremental sales: their customers wouldn't have shopped there if they didn't accept the charge card. In addition, 16 percent of their customers would purchase less if unable to use their AmEx cards.

AmEx now has brought the third-largest discount chain, Target, and the fourth-largest, Ames/Zayre, into its fold.

As for K mart and Wal-Mart, Russell could only say that she's working on them. It took a year of talking to Target, she said.

Target already was accepting Visa, Master-

(Continued on page 68)

Retailers Draft Off-Price Ad Rules

By Ken Rankin

WASHINGTON — Several major discounters and catalog showroom chains have joined with other leading retailers to hammer out controversial new ground rules governing off-price advertising.

In addition to setting standards for substantiation of retail price ad claims, the "Code of Advertising" establishes basic principles for advertised price comparisons, lowest price claims and price matching guarantees by retailers.

The standards, which are in the "draft" stages, are being developed by a panel of retailers for the national Council of Better Business Bureaus (CBBB). Members of that "task force" are Ames, Best Products, Dayton Hudson, K mart, Marshalls, Service Merchandise, Sears, JCPenney and Montgomery Ward.

Although the guidelines are designed to be voluntary, officials at the council plan to circulate these ad standards to both private and government enforcement agencies.

In a letter outlining the plan to IMRA president Richard Hersh, CBBB's vp/senior counsel Steven J. Cole noted that "BBBs throughout the country [are expected to] use these standards to monitor local, regional and national advertising and we would hope that consumer protection officials would similarly rely on these standards as benchmarks for evaluating comparative price claims."

A draft version of the price advertising ground rules being circulated to retail and consumer groups stresses that retailers "should be prepared to substantiate any claims or offers made before publication or broadcast." Advertisers should also be prepared to supply this substantiation "promptly to the advertising medium or the [local] Better Business Bureau," upon request.

NHMA: New Sept. Show in Atlanta

NEW YORK — The National Housewares Manufacturers Assn. has moved the location and date of its July housewares show to Sept. 24 to 26, 1990, in the Georgia World Congress Center in Atlanta.

The decision, announced at a morning press conference here on Oct. 20, comes after a survey of over 1,000 NHMA members and 360 retail buyers. Board chairman Robert Furer, Bonny Products, said one-third of NHMA membership and 46 percent of retailers surveyed expressed a need for a second show, as an addition to the NHMA's January show in Chicago.

Furer said that NHMA members will not be required to exhibit at both shows, although all members must continue to show their wares at one association-sponsored show per year. The switch in show date and site is an indication, said Furer, of the NHMA's greater responsiveness to the needs of its members and their customers.

"The September Atlanta show is a solid choice because it doesn't overlap with other major industry shows or the holiday rush for our customers," said Furer. "It provides an opportunity to buy for early 1991. Major retailers are planning their first and second quarters in September and some other retailers can take advantage of last-minute Christmas buys."

The NHMA also released a set of criteria to be used in selecting its new chief operating officer, to replace Jay Spaulding who resigned earlier this year. Resumes may be sent to Furer at Bonny Products, 1502 Market Street, Washington, D.C., 27889.

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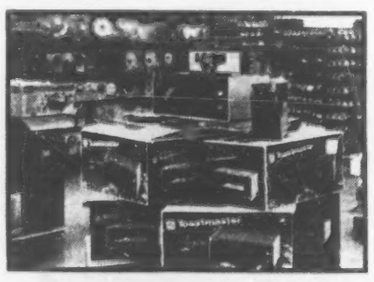

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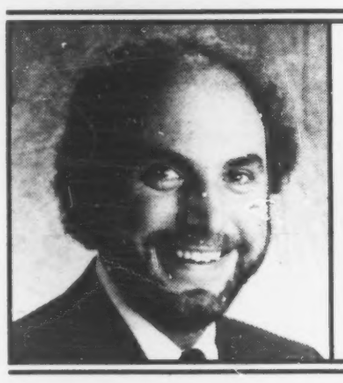
EDITORIAL

Store Managers: A Link to the Customer

In the last issue of *Discount Store News*, there was an exclusive report on top performing brands as perceived by store managers from the nation's discount retailers. This issue also focuses on top brands, but from the consumer's viewpoint (see page 21).

This research study, which was conducted by Leo J. Shapiro & Associates, reveals that the consumer demand for national brand merchandise is as strong as ever, despite a growing interest in private label or store brand merchandise.

More important, however, aside from the specific results of the consumer study, is the relationship between the store manager and the customer, and its impact on brand selection.



TONY LISANTI
Editor

In today's technology-driven business environment, the role of the store manager is often questioned, criticized, and overshadowed by headquarters' crunching of numbers and analyzing data. However, when it comes to understanding the customer, buying habits, and brand preferences, perhaps the store manager still knows best.

Consider the fact that no executive spends as much time walking the aisles of a store than the store manager. No one talks to the customers more than the store manager. Yet, why do so many retailers virtually ignore the store manager?

Recently, I have toured several stores and interviewed managers. I've talked to some managers who have minimal input in buying decisions or merchandise displays. And I've talked to some who contribute to the buying decisions and control in-store merchandise displays.

In fact, during one particular store visit a manager told me that he rarely sees or speaks to any of the executives from the corporate office. During another store visit, a department manager pointed out (to me and other headquarters executives) that several customers had requested a particular brand that the store didn't carry, but the competitor who was located right across the street did. He explained that it had resulted in lost sales. The vice president immediately responded with a guarantee that he would recommend the addition of that brand to the store's product mix.

The role of the store manager may have been altered by a greater dependence on technology, but nothing can replace the hands-on knowledge and experience that comes, as many executives claim, from "being out in the field . . . in the trenches. . . talking to the customer day after day."

Technology provides a wealth of important information that was never before available, but it cannot be allowed to strip away the personal side of the retail business. Technology is a tool for store managers, not a replacement for store managers, or store visits.

If you ignore the store manager, you ignore the customer.

WASHINGTON REPORT

Disease Notification Bill Packs a Painful Punch

Last year, the discount store industry was slapped with controversial new workplace "hazard communication" rules concocted by federal regulators at the Occupational Safety and Health Administration.

Those new OSHA requirements, which are still being digested by retailers, hold employers responsible for making manufacturer-prepared "data sheets" on hazardous workplace substances available to employees. Businesses are also obliged to train workers on how to cope with accidental exposure to caustic solvents and other potentially hazardous chemicals in the workplace.

KEN RANKIN

OSHA's new rule was only the first shoe, however. Now discounters are facing the threat of new workplace disease notification legislation that would require costly "medical monitoring" of at-risk employees.

These proposals would require the Health and Human Services Department to:

- Establish a "risk assessment" board charged with identifying at-risk employees;
- Recommend medical monitoring for affected workers.
- Notify employers and employees about the potential risk of workplace disease;

Under the proposal, discounters and other employers would be expected to pay the medical monitoring expenses for "at risk" employees, and would be prohibited from discriminating against workers who require such monitoring.

Critics of the proposal contend that OSHA is "swatting flies with a sledgehammer."

The chief impact of the disease notification legislation will be to create new paperwork and compliance headaches for industries such as retailing where there is little, if any, danger of contracting an occupational disease, they say.

I think the critics are right. Like so much other legislation these days, the disease notification bill seems to be aimed more at appeasing a special interest group than addressing a real problem.

Instead of focusing on problems that don't exist, legislators and other government officials concerned about workplace safety should put more emphasis on eliminating real-life employment hazards.

IMRA PRESIDENT'S CORNER

IMRA Washington Office Grows With the Flow

Since IMRA opened its Washington office nearly six years ago, the volume and scope of the work produced by the office has increased dramatically.

When the board originally authorized the hiring of a full-time lobbyist for the discount industry, the association basically covered only issues which were of major importance, but as time has gone on and the staff has been increased, what were once considered less important issues have escalated into major issues.

The IMRA Washington staff has also increased the flow of pertinent information to the discount industry through bulletins, newsletters and informational materials.

RICHARD HERSH

The state legislative service which was originally a service of the old AGMC has also grown by leaps and bounds. What was once simply a reiteration of state laws which had been passed or were being considered has been refined to include law reviews, overviews, personal information services and IMRA's newest service "The Solid Waste Regulatory Bulletin." Unlike other bulletins in the service, the solid waste bulletin will cover regulations and other non-legislative action in so-called "bellwether" states selected because of their heavy activity and leadership roles in the solid waste arena. Those states include California, Connecticut, Florida, Massachusetts, Michigan, Minnesota, New Jersey, Rhode Island and Wisconsin.

We anticipate this new service to be able to keep the discount retail industry abreast of the "trends" in legislation and regulation in this most important area, one which which could conceivably cost members of IMRA millions of dollars.

In the past year, the Washington office has also launched the "Washington Issues Report" which highlights the activities of Congress and the regulatory agencies that affect IMRA members. The back page of the "Report" often takes an in-depth look at an issue that's "on the front burner" in Washington.

All of this vital information is, of course, available to IMRA's membership—and only to members of the association.

Indeed, IMRA's growth over the last six years has been fueled by a continuing need for an effective advocate for the discount industry on issues of critical importance.

Your comments and suggestions are always appreciated. Simply contact me or Bob Verdisco in Washington for more information and for sample of IMRA's reports.

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TOP BRANDS

Part II: Consumer Survey

Consumer Preference for Brands Rises

Survey Reveals Growing Consumer Acceptance of Private Label Products

By Laura Liebeck

When it comes to top-selling discount store brands, consumers and store managers agree that Kodak, Rubbermaid, Wilson, Gitano, Conair, Maybelline, Cannon, Hershey's, Crest and Tide are No. 1 in their fields.

Additionally, in hardware, toys, and automotives, managers and consumers agree that Black & Decker and Stanley, Mattel and Fisher-Price, and Pennzoil and Quaker State are the top two national names in their respective categories.

These observations are gleaned from the 1989 Consumer Top Brands Survey conducted for *Discount Store News* by Chicago-based Leo J. Shapiro & Associates.

The Consumer Brands report is Part Two of *DSN's* annual brands study. Part I, which appeared in the Oct. 16 issue, revealed discount store managers' assessment of their top performing brands. They based their responses on a host of factors, primarily product movement and profit.

The Consumer Brands survey revealed shopper brand preferences in the same 17 merchandise categories polled by store managers.

Overall the consumer brands study revealed the following:

- Store managers are more in tune with what their shoppers want to purchase than in 1988;
- Consumers have a huge and growing appetite for branded merchandise;
- Consumer preference for branded goods is increasing and so is their acceptance of private label merchandise.

Groups Agree on 110 Brands

In all, the two groups agreed on 110 brands this year compared to 106 in 1988.

Leading the way in brand name agreement are automotives and ladies' apparel, where store managers and consumers agreed on eight of the top 10 labels.

Last year, the two groups agreed on eight brands in three categories: automotives, food, candy and snacks and sporting goods.

At the other end of the spectrum, managers and consumers agreed upon only five of the top 10 brands in the sporting goods category. Last year, managers and consumers agreed on eight sporting goods labels.

Despite that, sporting goods shoppers said they are more interested in name brand merchandise this year than they were a year ago, joining consumers of 12 other product categories. Brand preference in sporting goods rose 12 points in 1989 to 71 percent of consumers.

Brand preference also rose dramatically in apparel and domestics. The proportion of consumers who had a preferred brand in men's apparel rose by 14 percentage points to 75 percent, compared to just 61 percent of consumers last year. Significant increases in brand preference also occurred in ladies' apparel (up 10 points), children's apparel (also up 10 points) and domestics (up nine points).

At the same time that consumers are demanding more national brands, they are also expressing greater preference for private label goods. Private label merchandise grew in every category but cosmetics, which is the most name brand-driven category in a discount store.

Consumer preference for branded merchandise is very high. Only five merchandise categories recorded brand preference percentages of lower than 70 percent and none were below 50 percent.

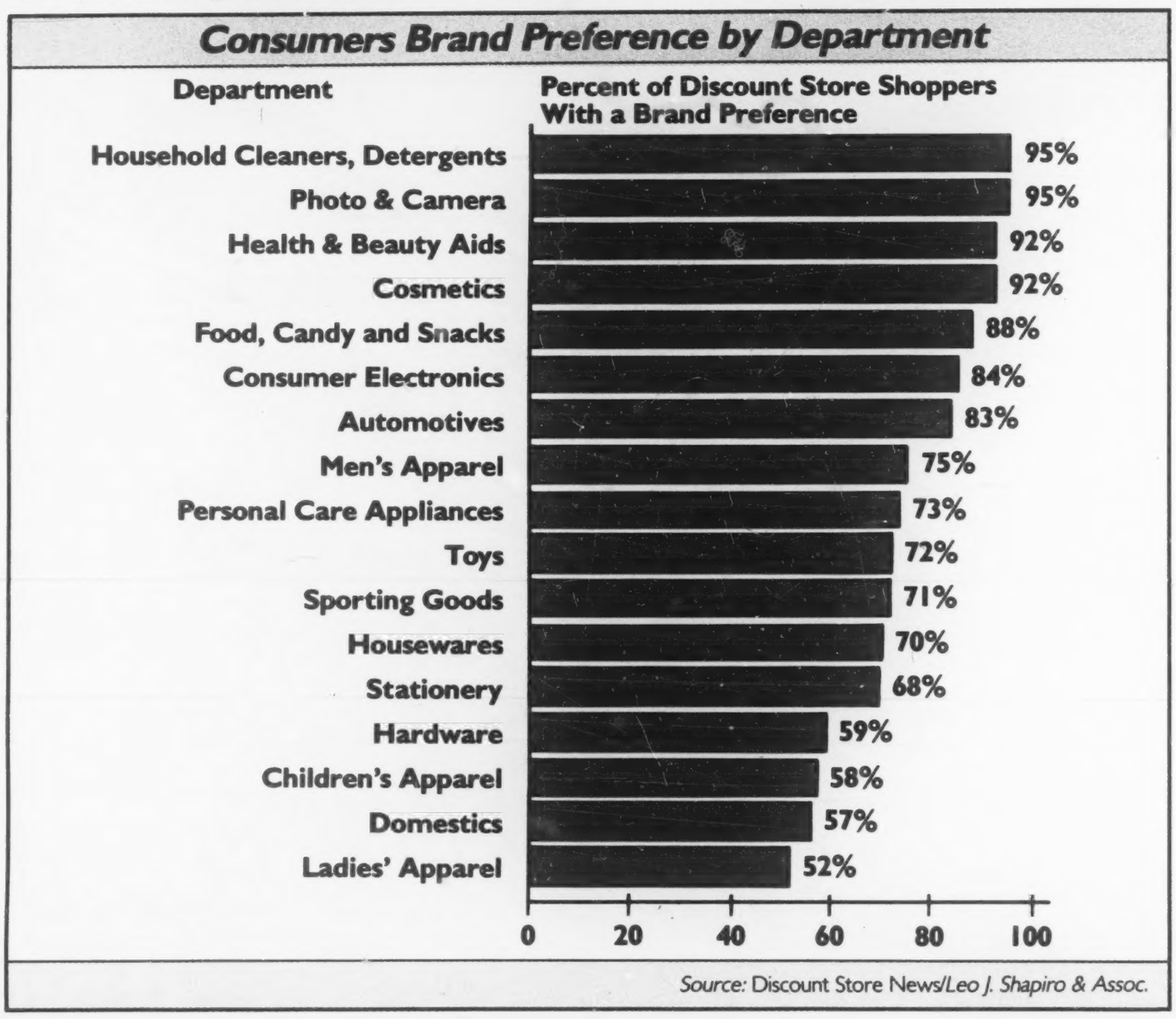
Of the four categories posting a decline in the percentage of customers seeking name brands, three of them—household cleaners and chemicals, photo and camera, and health and beauty aids—each recorded a decline of just one percentage point.

In fact, 95 percent of all shoppers of household cleaners and photo and camera seek name brand merchandise, the highest of the categories surveyed. Likewise, their interest in private label is almost negligible.

A big decline in brand preference was recorded among toys shoppers. This year just 72 percent expressed a preference for branded toys compared with 77 percent in 1988.

This is strange since toys sales have historically been name brand-driven. This year, as in 1988, store managers and consumers agreed on seven of the top 10 toy brands.

Also surprising is the fact that private label toys charted a substantial growth in preference among these same consumers, the biggest percentage increase in private label in the study.



Agreement of Trade and Consumers

Top 10 Brands: 1989

Department	Number of Brands Store Managers and Consumers Agree On *
Automotives	8
Ladies' Apparel	8
Hardware	7
Food, Candy & Snacks	7
Toys	7
Consumer Electronics	7
Men's Apparel	7
Cosmetics	7
Domestics	7
Housewares	7
Personal Care Appliances	6
Photo & Camera	6
Stationery	6
Household Cleaners & Chemicals	6
Children's Apparel	5
Health & Beauty Aids	5
Sporting Goods	5

**Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in [department]?' and discount store consumers' response to the question: 'If you were shopping for [product] in a discount department store, which brand of that product would you want?*

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumers' Top Brands

Automotives 60
Pennzoil
Quaker State
Fram

Consumer Electronics 47
Sony
General Electric
Panasonic

Cosmetics 32
Maybelline
Cover Girl
Revlon

Domestics 43
Cannon
Pepperell/Lady Pepperell/ Westpoint
Fieldcrest

Food, Candy, Snacks 59
Hershey's
M & M
Snickers

Hardware 58
Black & Decker
Stanley
General Electric

Health & Beauty Aids 43
Crest
Colgate
Ivory

Household Cleaners 47
Tide
Comet
Windex

Housewares 43
Rubbermaid
General Electric
Black & Decker

Children's Apparel 31
Fruit of the Loom
Hanes
Levi's

Ladies' Apparel 32
Gitano
Fruit of the Loom
Levi's

Men's Apparel 31
Levi's
Fruit of the Loom
Hanes

Personal Care 50
Conair
Vidal Sassoon
Remington

Photo, Camera 49
Kodak
Fuji
Duracell

Sporting Goods 53
Wilson
Spalding
Coleman

Stationery 54
Hallmark
American Greetings
Bic

Toys 61
Mattel
Fisher-Price
Milton Bradley
Hasbro

Discount store shoppers nationwide named their preferred brands in 17 merchandise categories, in a poll conducted for Discount Store News by Leo J. Shapiro & Associates.

PART II: CONSUMER STUDY TOP BRANDS II

Confidence in Finding Name Brands Lags

But Shoppers Likely to Buy Substitutes

By Laura Liebeck

Even though discount stores are carrying a wider selection of name brand goods than ever before, consumers who shop discount outlets regularly are still skeptical about always finding their preferred brands in the store.

In fact, consumers are less confident this year than they were in 1988 that they will find the specific brands they seek.

Shoppers gave 11 of the 17 merchandise categories they were asked about a lower mean confidence rating on the 1989 Consumer Brands Survey.

However, consumers expressed a greater willingness to buy private label merchandise than they did a year ago and are less likely to skip a purchase and switch brands if the specific label they want is unavailable.

On average, consumer confidence in finding name brand products—based on a scale of one to nine with one meaning no confidence and nine meaning total confidence—is a 7.37, down from the 7.42 in 1988, or a grade average of "B", the same as last year.

The numerical decline can be attributed to all merchandise categories except photo and camera, automotives, stationery, domestics, sporting goods and men's apparel, which posted confidence rating increases.

The biggest confidence boost was recorded by sporting goods shoppers who gave this department a 7.22 rating, up from 6.79 last year.

The most dramatic decline in consumer confidence was recorded in CE and cosmetics.

CE, which has the lowest confidence rating of all the categories, received a 6.63 from consumers this year, down from 7.08, and cosmetics got a 7.27 confidence rating, down from 7.65 in 1988.

Consumers reported they are most confident they'll find the brands they prefer in photo and camera (7.89, unchanged from last year), and food, candy and snacks (7.80, down from 7.82 in 1988).

These consumers epitomized the brand orientation of today's shoppers.

Overall, discount store shoppers are more interested in name brand merchandise than they have ever been in past years.

Consumers said they are more interested in name brands in 13 of the 17 categories. However, store brand/private label merchandise is gaining favor among consumers. And in increasing numbers, consumers actually express a preference for private label goods.

Overall, private label merchandise is more acceptable to customers this year than it was in 1988.

One-fifth of all discount store shoppers said they prefer a private label brand to a specific national label, up from one-tenth of the shoppers last year, a substantial increase for retailers.

This is a significant survey result since discounter emphasis and generation of private label brands has been on the increase in an assortment of categories, particularly apparel and domestics.

The results also indicate that if a customer is willing to forego the national name brand for a private label, the discounter is less likely to lose a sale and possibly can create an audience for that private label.

K mart and Wal-Mart have succeeded with this practice, with their Jaclyn Smith and Bobbie Brooks apparel lines, respectively.

Both apparel labels—which appeared on both the top 10 consumer and store manager brands lists—are seen as national brands by consumers and not as private label merchandise.

On the current survey, the preference for private label goods grew in 16 merchandise categories. Only in cosmetics did the preference for private label lessen from last year.

Hardware led the list as the category with the greatest preference for private label followed by children's apparel, ladies' apparel, domestics and men's apparel.

Surprisingly, toys charted the greatest growth in private label preference among consumers.

Historically, toys is a brand-driven category, but discounters have been successful in making inroads with private label merchandise.

All of this is good news for discounters since fewer shoppers will skip a purchase and therefore switch to another brand, a private label name, perhaps.

This year, 47 percent of discount store shoppers said they will skip a purchase if their preferred brand is unavailable to them. While this is still a hefty number, it compares favorably with last year when 49 percent of shoppers said they would skip a purchase entirely if they couldn't find what they want.

Despite the good news, discounters are still in danger of losing consumer electronics customers if their preferred brands are not stocked. Six of 10 CE shoppers said they will skip a purchase rather than buy something other than they originally intended, the highest skip rate of any merchandise category.

The shopper least likely to skip and therefore most likely to switch brands is the stationery customer. Fewer than three in 10 stationery customers will skip the purchase if the brand they want is unavailable.

Of the 17 merchandise categories, discounters have an even chance of losing the purchase or getting the customer to switch brands in eight categories. They are more likely to lose the sale in three categories, and get the customer to switch brands in six categories.

Consumer Snapshot:

They'd Rather Skip Top 5 Departments in Willingness To Skip Purchase If Their Brand Is Not Available in Store	They'd Rather Switch Top 5 Department in Willingness To Switch to an Alternative Brand If Preferred Brand is Available
Consumer Electronics	Stationery
Cosmetics	Domestics
Photo & Camera	Children's Apparel
Automotives	Food, Candy & Snacks
Sporting Goods	Personal Care Appliances

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Snapshot:

The Top 5 Departments In Private Label Preference	The Bottom 5 Departments In Private Label Preference
Hardware	Cosmetics
Children's Apparel	Personal Care Appliances
Ladies' Apparel	Photo & Camera
Comestics	Household Cleaners
Men's Apparel	Food, Candy & Snacks

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

901 Households Polled for Survey

NEW YORK — *DSN*'s exclusive consumer brands survey was based on a national sample of 901 households in telephone interviews that alternated between the "man and woman of the household."

The consumer brands survey consisted of the same 17 merchandise categories examined in the Store Manager Top Brands Survey published in the Oct. 16 issue of *Discount Store News*.

All of the research for both surveys was conducted and compiled in June by Leo J. Shapiro & Associates, a Chicago-based market research firm.

This consumer research survey, unlike others, measures the brand preferences of *discount store shoppers*. The survey results include only those households reporting they shopped at a discount department store at least three times during the past year.

The results of this survey will help discounters identify both their strengths and their weaknesses in serving their customers. It also helps them measure the success of their merchandise programs and their buying decisions and may even give them some insight in how and where to make product line changes.

Those who were interviewed were asked a variety of questions concerning their shopping preferences in all 17 merchandise categories. Consumers were asked:

- To state whether or not they have a brand preference in each category;
- What are their brand preferences in each category;
- Whether they have any private label brand preferences;
- How confident they are in finding the brands they want;
- How willing they are to switch brands if the one they intended to buy is unavailable;
- Which categories of merchandise would they skip making a purchase if they couldn't buy the brand they want.

How Consumer Preferences Affect Brand Trends in 17 Departments

Department	Mean Level of Confidence of Finding Brand*	Percent 'Not Sure'**	Preferred Private Label	Would Skip Purchase If Preferred Brand Unavailable
Photo & Camera	7.89	11.2%	5.2%	57.3%
Food, Candy & Snacks	7.80	11.7	7.6	40.1
Health & Beauty Aids	7.74	11.0	7.8	51.1
Household Cleaners	7.66	13.8	5.7	48.2
Automotives	7.65	13.5	16.8	52.7
Toys	7.51	15.2	11.0	49.7
Stationery	7.49	15.2	15.8	29.4
Domestics	7.47	16.3	26.2	33.1
Personal Care Appliances	7.40	12.3	5.4	44.6
Housewares	7.30	18.8	12.5	48.9
Cosmetics	7.27	17.7	4.0	58.9
Children's Apparel	7.22	17.1	34.2	39.6
Sporting Goods	7.22	19.9	11.3	52.6
Men's Apparel	7.08	22.7	22.1	50.5
Hardware	7.07	22.1	40.8	45.7
Ladies' Apparel	6.94	23.6	30.0	50.0
Consumer Electronics	6.63	28.9	10.7	60.9

**Consumers were asked how likely would they be able to find the brands they want in each department. Mean: Rating on scale of 1 to 9 with 9 meaning they were 'certain' of finding their preferred brand in a discount store.*

***Ratings of 1 to 5 are grouped together indicating 'Not Sure.'*

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Desire for National Labels Grows in Men's Wear

Nationwide DSN Report

The rising number of national brand names in men's apparel have translated into greater brand preference among shoppers and a growing confidence that the brands they want will be found at their local discount store.

Three-fourths of consumers polled for *DSN*'s 1989 Consumer Top Brands Survey said they have a brand preference when purchasing men's apparel. That translates into a 14 percentage point increase from the 1988 survey and the largest increase of any of the 17 categories studied.

In addition, when consumers were asked to express their confidence in finding the brand they want—on a scale of 1 to 9 (with one meaning no confidence and nine meaning total confidence)—shoppers gave men's apparel a 7.08.

Although the score is relatively low—and higher than only hardware, ladies' apparel and consumer electronics—it does reflect a 19 percentage point increase from 1988.

Obviously, purchasers of men's apparel are becoming much more aware of national labels and prefer them. Plus, they are more confident than ever that the brands they are looking for are on discounters' shelves.

One reason for the growing preference for national brands in men's apparel is due, no doubt, to the increasing numbers of branded goods flooding stores. Customers have more brands to choose from and are becoming more interested in making brand choices.

Private label goods are also gaining momentum in men's apparel, according to survey results, although the preference is still relatively low.

Currently, a little more than two in 10 shoppers (22.1 percent) said they prefer private label men's apparel to branded merchandise, a small gain from 1988.

Ames/Zayre shoppers are the most enthusiastic about store brand/private label merchandise and also are the most interested in branded merchandise, outpacing Wal-Mart customers by just two-tenths of 1 percent.

Target customers are the least concerned with national brands in men's apparel and reported the least interest in store brand/private label.

Overall, Levi's was the No. 1 label consumers said they look for in men's apparel when shopping at a discount store.

Consumer Brand Preferences in Men's Apparel

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Levi's	23.9%	23.8%	23.4%	22.2%	22.0%
Fruit of the Loom	20.5	20.2	25.0	13.9	15.4
Hanes	20.5	20.9	17.2	20.4	22.0
Lee	6.0	4.6	3.1	2.8	11.0
Wrangler	5.4	6.0	9.4	5.6	3.3
Arrow	3.9	4.6	1.6	6.5	4.4
Jockey	3.6	3.9	2.3	7.4	2.2
McGregor	2.4	2.8	—	—	—
BVD	2.4	2.1	2.3	2.8	3.3
Dickey	2.1	2.1	1.6	1.9	2.2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Men's Apparel Brands: Store Managers vs. Shoppers

Managers	Consumers
Lee	Levi's
Wrangler	Fruit of the Loom
Fruit of the Loom	Hanes
Hanes	Lee
Levi's	Wrangler
Dickies	Arrow
McGregor	Jockey
Gitano	McGregor
Manhattan	BVD
Brittania	Dickies

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Store managers surveyed at roughly the same time as consumers (see *DSN*, Store Managers Top Brands Survey, Oct. 16, 1989) said Lee was their top performing brand and ranked Levi's fifth. Lee is No. 4 on the consumer brands list.

(Consumers are unaware that Levi's is available to discounters only through diverters.)

Levi's mass market label, Brittania, was not even mentioned by consumers as a brand they look for when shopping for men's apparel. But Brittania was on the top 10 list of best performing brands identified by store managers.

Twenty-four men's apparel labels were mentioned by consumers as brands they prefer to purchase in men's apparel.

Compared to last year, seven of the brands reappeared on the top 10 list of the 1989 survey. They are Levi's, Fruit of the Loom, Hanes, Lee, Wrangler, McGregor and Dickies.

Not returning this year are Rustler, Manhattan and Ocean Pacific.

Seven of the men's apparel

(Continued on page 61)

New Lines Propel Fruit of the Loom in Children's

Nationwide DSN Report

Fruit of the Loom emerged as the No. 1 brand in infants', toddlers' and children's apparel, jumping six spots on *DSN*'s Top Consumer Brands Survey for the category.

The rise of the popular underwear manufacturer propelled it ahead of Health-Tex, last year's top-ranked children's apparel label, Levi's, Carter, Pampers, OshKosh and Huggies.

Health-Tex fell to fifth on the current survey, with a greatly reduced mention rate.

Fruit of the Loom's move to No. 1 was likely due to the manufacturers entrance into the girls' panty business less than two years ago and its expanded line of boys' briefs.

However, Fruit of the Loom was not a clear winner at the nation's top four chains: K mart, Wal-Mart, Target and Ames/Zayre.

In fact, Fruit of the Loom tied for top honors at Target with Hanes, and at Ames/Zayre with Levi's, OshKosh, Health-Tex and Pampers.

Hanes emerged as the No. 1 brand among shoppers at K mart and Wal-Mart. Pampers was No. 2 at Wal-Mart and Fruit of the Loom was third.

Overall, consumers' top 10 list of children's wear labels varied only slightly from 1988. Just two brands, Carter (No. 21) and Wrangler (No. 11) dropped out of the top 10, replaced by Nike (No. 8) and Reebok (No. 9), relatively new brands to discounters' shelves.

The inclusion of Nike and Reebok on the consumer brands survey illustrates that discount store shoppers now have the impression—whether true or not—that such top-of-the-line labels are available at discounters.

This should be good news to discounters since it means that their customer's appetite for branded goods is accelerating at a time when they are putting greater emphasis on name brands. In addition, consumers expectation of finding top-shelf labels at their local discount store is increasing.

Confidence in finding all the brands they seek still needs some improvement, however.

On a scale of 1 to 9—with one meaning no confidence and nine meaning total confidence—consumers gave children's apparel a 7.22 rating, down from 7.44 on the 1988 survey.

Despite that small slide, shoppers said that they are more interested in branded goods. At the same time, consumers said that they are more interested in store brand/private label products than they were a year ago.

This year, nearly six out of 10 consumers (58 percent) said they have a brand preference in children's apparel, up 10 percentage points from a year ago.

More than one-third (34 percent) also expressed a preference for private label children's wear, up six percentage points from the 1988 survey.

Also, survey results reveal that consumers are slightly less willing than they were last year to skip a purchase if the specific brand they are looking for is not available.

Fewer than four in 10 consumers said they would skip a purchase if the brand they want was not available, and 60 percent said they would simply switch to another label.

Obviously, the brands consumers want to purchase are becoming more available.

Ames/Zayre customers appear to be the most brand-conscious of those polled.

Two-thirds of Ames/Zayre consumers said they have a brand preference when shopping for infants', toddlers' and children's apparel. They are also most interested in private label/store brand merchandise.

(Continued on page 61)

Consumer Brand Preferences In Children's Apparel

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Fruit of the Loom	12.6%	11.6%	11.1%	15.6%	8.8%
Hanes	12.6	12.6	17.8	15.6	5.9
Levi's	11.7	9.5	6.7	8.9	8.8
OshKosh	8.1	7.4	2.2	8.9	8.8
Health-Tex	8.1	8.4	6.7	6.7	8.8
Pampers	7.2	8.4	15.6	6.7	—
Lee	6.3	4.2	2.2	4.4	—
Nike	3.6	3.2	4.4	—	—
Reebok	3.6	4.2	2.2	2.2	2.9
Huggies	2.7	2.1	—	—	—

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Children's Apparel Brands: Store Managers vs. Shoppers

Managers	Consumers
Lee	Fruit of the Loom
Curity	Hanes
Fisher-Price	Levi's
Health-Tex	OshKosh
OshKosh	Health-Tex
Liberty	Pampers
Fruit of the Loom	Lee
Pampers	Nike
Garanimals	Reebok
Garan	Huggies

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Ladies' Brands Gaining Favor Among Consumers

Nationwide DSN Report

Female consumers remain well conditioned to private label apparel, however, their preference for branded merchandise is rising.

In fact, more than half (52 percent) of consumers questioned in *DSN's* 1989 Consumer Top Brands Survey said they prefer branded merchandise in ladies' apparel, up 10 percentage points from a year ago.

Despite the advance, consumers just don't voice substantial brand preferences in ladies' apparel and report they have little confidence they'll find the brand they want.

When consumers were asked about their confidence in finding the brand they want in 17 merchandise categories, ladies' apparel ranked 16th, higher than only consumer electronics.

In addition, consumers reported that they prefer private label apparel merchandise more often than shoppers of any other merchandise category except for hardware and children's apparel.

This year, three out of 10 consumers said they prefer private label apparel to branded goods, up one percentage point from 1988.

Although shoppers of ladies' apparel showed no universal preference for a specific brand, their restraint should not be translated into a lack of enthusiasm for new clothes.

Half the consumers surveyed said they will skip a purchase entirely if they can't find what they want. And when asked what brand they shop for when looking for apparel, nearly one-third of the respondents (32.7 percent) mentioned a brand that garnered less than 0.9 percent of total mentions.

Interestingly, both Jaclyn Smith (No. 8) and Bobbie Brooks (No. 9), exclusive private label brands to K mart and Wal-Mart, respectively, were mentioned by consumers as among the top 10 brands in ladies' apparel.

The growing popularity of these two labels bears out the growing preference of consumers for quality private label goods.

Gitano Moves Up to No. 1

Leading the consumer top brands list this year was Gitano, which was No. 2 in 1988. Gitano surpassed Lee, last year's No. 1 for the top spot.

Lee fell back to No. 5 this year behind Gitano, Fruit of the Loom, Levi's and L'eggs.

Gitano, No. 1 in the store manager survey, rose to the top spot on the consumer brands list in large part, no doubt, because of its product line diversity.

Fruit of the Loom, which did not make the top 10 list in 1988, apparently scored well among consumers with its ladies' panty offerings, a relatively new business for the manufacturer.

Hanes, which also was not mentioned as a preferred brand last year, appeared on the 1989 list in the No. 6 spot, likely in large part to its Hanes Her Way sheer hosiery, which has been meeting with a lot of retail success.

Cape Cod, a top performer among store managers, placed No. 10 on the consumer brands survey list for the first time. Interestingly, Cape Cod is the only non-exclusive, sportswear label to appear on the list.

In all, six of last year's ladies' apparel labels reappeared on the top 10 consumer list this year.

Compared with the list of top performing brands listed by store managers, only two brands did not agree. Chic and Wrangler appeared exclusively on the store managers' top 10 list, while Hanes and L'eggs were only on the consumers' top 10 rankings.

The nation's top four discount chains, K mart, Wal-Mart, Target and Ames/Zayre agreed on Gitano as the most sought after ladies' apparel label. After that, the survey results vary.

Fruit of the Loom was in the No. 2 spot at K mart, and Levi's was third.

At Wal-Mart, the No. 2 position was a three-way tie among Fruit of the Loom, Playtex and Bobbie Brooks.

Target customers put L'eggs in the second spot and Fruit of the Loom, Levi's and Hanes tied for third.

Lee was No. 2 at Ames/Zayre and L'eggs, Hanes and Cape Cod tied for third.

Consumer Brand Preferences In Ladies' Apparel

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Gitano	11.8%	12.5%	13.2%	13.2%	13.5%
Fruit of the Loom	8.2	9.1	7.9	7.9	2.7
Levi's	6.4	6.8	5.3	7.9	2.7
L'eggs	6.4	6.8	7.9	10.5	5.4
Lee	5.5	3.4	5.3	2.6	10.8
Hanes	5.5	4.5	2.6	7.9	5.4
Playtex	3.6	4.5	7.9	2.6	—
Jaclyn Smith	3.6	4.5	2.6	5.3	2.7
Bobbie Brooks	2.7	1.1	7.9	5.3	2.7
Cape Cod	2.7	2.3	—	—	2.7

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Ladies' Apparel Brands: Store Managers vs. Shoppers

Managers	Consumers
Gitano	Gitano
Lee	Fruit of the Loom
Jaclyn Smith	Levi's
Chic	L'eggs
Bobbie Brooks	Lee
Levi's	Hanes
Playtex	Playtex
Wrangler	Jaclyn Smith
Fruit of the Loom	Bobbie Brooks
Cape Cod	Cape Cod

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Maybelline Makes Up Ground in Cosmetics Category

Nationwide DSN report

Maybelline is the top cosmetic brand among consumers this year, surpassing Cover Girl for the No. 1 spot, according to *DSN's* 1989 Consumer Brands Survey.

Maybelline's rise to the No. 1 spot puts consumers in agreement with store managers, who ranked Maybelline as the top performing brand in the cosmetics category (see Store Managers Top Brands, *DSN*, Oct. 16, 1989).

In fact, consumers and managers agreed on seven of the top 10 cosmetics brands, and ranked the top four in exactly the same order.

The agreement between the two groups is important in cosmetics, which is among the most brand-oriented categories in a discount store.

In fact, more than nine out of 10 consumers said they have a brand preference in cosmetics, up seven percentage points from the 1988 survey.

The most brand-conscious of consumers appears to be Ames/Zayre shoppers, according to the survey. Wal-Mart customers were the least brand-conscious in this category, although more than 85 percent of the chain's shoppers polled expressed a specific brand preference.

Store brand/private label cosmetics is barely a factor in this category. In fact, no Wal-Mart shoppers expressed an interest in unbranded merchandise.

Despite the preference for branded cosmetics, shopper confidence in finding their preferred brand is waning.

When asked to rank their confidence in finding the right cosmetic brand—on a scale of 1 to 9, with one meaning no confidence and nine meaning total confidence—consumers gave cosmetics a 7.27. Cosmetics scored a 7.65 on the confidence scale in last year's survey.

Even with the confidence decline, fewer consumers this year are likely to skip the purchase if they can't find the exact brand they want. However, cosmetics shoppers are among the most likely to skip a purchase if they can't find the exact brand.

Nearly six out of 10 cosmetics shoppers said they would skip a purchase entirely if their preferred brand is unavailable, down from 64.2 percent a year ago.

Overall, Maybelline's rise to the top spot is due to dramatic mention increases by K mart and Target shoppers.

Cover Girl's slide to second place is the result of mention declines at K mart, Wal-Mart and Ames/Zayre. However, Target shoppers mentioned Cover Girl more often this year than last year as a preferred brand.

Revlon, No. 3, owed its mention increase to Wal-Mart shoppers and Ames/Zayre, who said Revlon is a preferred cosmetic brand twice as often this year as in 1988.

Max Factor, which inched up a notch to fourth place, scored big increases at K mart, Wal-Mart and Target, but fell dramatically at Ames/Zayre.

Top Cosmetics Brands: Store Managers vs. Shoppers

Managers	Consumers
Maybelline	Maybelline
Cover Girl	Cover Girl
Revlon	Revlon
Max Factor	Max Factor
L'Oreal	Clarion
Clarion	L'Oreal
Clairol	Almay
Noxell	Wet 'N Wild
Maxell	Clairol
Coty	Aziza

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Brand Preferences In Cosmetics

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Maybelline	33.9%	33.3%	26.8%	44.7%	23.5%
Cover Girl	26.6	27.3	24.4	42.1	20.6
Revlon	22.6	19.2	24.4	15.8	29.4
Max Factor	6.5	7.1	9.8	7.9	2.9
Clarion	4.0	5.1	4.9	2.6	5.9
L'Oreal	3.2	4.0	2.4	2.6	2.9
Almay	3.2	3.0	2.4	2.6	5.9
Wet 'N Wild	3.2	4.0	—	2.6	2.9
Clairol	2.4	2.0	2.4	5.3	—
Aziza	2.4	3.0	4.9	2.5	5.9

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Brand Awareness Becomes a Force in Housewares

Nationwide DSN Report

Name brands are becoming more important to consumers in the housewares category although national names are not as important as they are in 11 other merchandise categories.

Seven out of 10 shoppers in this year's *DSN* Consumer Brands Survey said they have a brand preference in housewares when they go to a discount store, up six percentage points from 1988.

Consumers also said that private label is becoming more important to them in housewares, as well.

Twelve percent of all consumers in the survey expressed a preference for private label housewares, up four percentage points from a year ago.

More than four years after acquiring General Electric's small electrics division, consumers are finally recognizing the Black & Decker name in the housewares category.

Black & Decker shot up six spots on the consumer list of preferred housewares labels, tripling the number of mentions it received last year.

Now in third place behind Rubbermaid and GE, Black & Decker passed by such venerable housewares names as Corning, Sunbeam and Revere.

Black & Decker's rise on the consumer brands chart came from discount shoppers in general and by customers of K mart, Wal-Mart, Target and Ames/Zayre specifically.

Shoppers of each of the nation's top four discount chains helped Black & Decker-brand housewares notch substantial brand preference gains over the past year, with the greatest increase recorded by Wal-Mart and K mart shoppers.

Overall, Rubbermaid topped the consumer brand list with gains posted by each discount chain. Rubbermaid's largest gain was recorded by Ames/Zayre, probably a result of Ames' acquisition of Zayre and an adjustment of the two chains' merchandise lines and Rubbermaid's numerous offerings.

General Electric—still a dominant force in consumers' minds despite its exit several years ago—was No. 2 on the list, the same as in 1988.

Just about every housewares brand recorded an increase in consumer responses this year, indicating brand entrenchment in the marketplace.

Top Housewares Brands: Store Managers vs. Shoppers

Managers	Consumers
Rubbermaid	Rubbermaid
Corelle	General Electric
Corning	Black & Decker
Visions	Corning
Black & Decker	Corelle
Ekco	Cannon
Silverstone	Sunbeam
Tucker	Revere
General Electric	Silverstone
Procter Silex	Ekco

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Brand Preferences In Housewares

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Rubbermaid	15.8%	16.3%	15.8%	13.8%	24.7%
General Electric	11.9	11.0	13.3	12.1	7.5
Black & Decker	9.1	9.5	10.0	11.2	5.4
Corning	7.9	7.6	6.7	7.8	6.5
Corelle	6.4	7.2	7.5	6.9	4.3
Cannon	6.4	6.8	5.0	4.3	9.7
Sunbeam	5.5	6.1	7.5	6.9	7.5
Revere	4.6	4.2	1.7	3.4	7.5
Silverstone	4.3	4.9	6.7	6.0	4.3
Ekco	4.0	4.2	2.5	5.2	2.2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Despite greater consumer interest in both name brand and private label housewares, shoppers also report that they are not very confident they'll find the brand they seek.

In fact, on a scale of 1 to 9—with one meaning no confidence and nine meaning total confidence—shoppers gave housewares a rating of 7.30, down from 7.57 last year. Only cosmetics and consumer electronics received a lower mean confidence rating.

The low confidence rating poses a challenge for discount chains: keeping the customers and getting them to make a purchase.

Nearly half the consumers (48.9 percent) polled for this survey said they would skip the purchase entirely if they could not find a specific housewares brand, up nine-tenths of 1 percent from 1988.

However, discounters and consumers seem to agree on the top housewares brands: Rubbermaid, General Electric, Black & Decker, Corning, Corelle, Cannon, Silverstone and Ekco.

Cannon Widens Lead Among Domestics Brands

Nationwide DSN Report

Cannon increased its hold as the most preferred brand in domestics, widening its lead over the other top rated labels, according to consumer responses to *DSN's* Consumer Top Brands Survey.

When asked to name the domestics brands they prefer, consumers overwhelmingly named Cannon. Pepperell—Lady Pepperell and West Point Pepperell—is the No. 2 brand, based on consumer responses, but is far behind Cannon.

Pepperell Mentions Rise

However, Pepperell did record an increase in the number of mentions from last year's survey. Specifically, Pepperell recorded its biggest increases from Wal-Mart and Ames/Zayre shoppers. Its biggest decline was recorded by Target shoppers.

In fact, Target customers named all top 10 domestics labels less often this year than in 1988, indicating a trend throughout the category.

Only four of the top 10 domestics labels recorded increases in mentions this year: Cannon, up two-tenths of one percent: Pepperell, up six-tenths of 1 percent; Dan River, up 1.1 percentage points; and Spring Maid, up half a percent.

All the others were mentioned less often on the current survey than they were in 1988. The largest decline was recorded by Fieldcrest and St. Mary's, both Cannon labels, by 1.8 percentage points. Their decline could be a result of greater recognition of the Cannon label.

The decline in mentions for most of the nation's top name brands in domestics could be due to a growing acceptance and preference for private label goods.

For example, when consumers were asked about their preference for private label domestics, their responses were so high they were second only to hardware, the category with the biggest preference for private label products.

More than one-fourth (26 percent) of consumers said they prefer private label domestics, up 42 percent from a year ago.

Despite this growing preference for private label domestics, consumers noted that they still go shopping with a specific brand in mind, survey results reveal.

More than half the consumers (57 percent) polled said they do have a brand preference in domestics, up nine percentage points from a year ago. Only women's apparel garners fewer mentions for brand preference.

While saying they have a brand preference, these same customers are among the most likely to switch brands if the one they want is not available to them.

Two-thirds of the consumers said if they can't find the exact brand they are looking for in domestics, they'll switch. Therefore, fewer of them than last year will skip the purchase, saving both the customer and the purchase.

However, switching brands is not a particularly big concern for domestics customers.

These shoppers are fairly confident they will find the domestics brand they seek.

On a scale of 1 to 9 — with one indicating no confidence and nine meaning total confidence—shoppers gave domestics a confidence rating of 7.47, compared with 7.36 last year.

Customers have every reason to be confident they'll find the right brand. Store managers and consumers agree on seven of the top 10 brands. Cannon topped both lists with Pepperell in the No. 2 spot.

Consumer Brand Preferences In Domestics

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Cannon	64.5%	65.3%	70.7%	59.6%	58.0%
Pepperell/ Lady Pepperell/ Westpoint/	4.1	4.0	4.0	5.3	6.0
Fieldcrest	3.5	4.0	1.3	5.3	6.0
Martex	2.3	1.3	1.3	3.5	4.0
Dan River	2.3	2.7	2.7	—	6.0
St. Mary's	1.7	2.0	—	3.5	—
J.P. Stevens	1.2	1.3	2.7	—	2.0
Burlington	.6	.7	—	1.8	—
Taste Maker	.6	.7	. 1.3	—	2.0
Spring Maid	1.7	2.0	—	—	4.0

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Domestics Brands: Store Managers vs. Shoppers

Managers	Consumers
Cannon	Cannon
Pepperell/Lady Pepperell/ Westpoint	Pepperell/Lady Pepperell/ Westpoint
J.P. Stevens	Fieldcrest
Spring/Spring Mills	Martex
Martha Stewart	Dan River
Dan River	St. Mary's
Fieldcrest	Spring Maid
Kenney	J.P. Stevens
Burlington	Burlington Taste Maker

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumers Flexible in Their Choice of Cleaners

Nationwide DSN Report

When consumers go to a discount store for a household cleaner or chemical, they are looking for a specific brand but are as likely to switch as skip the purchase if they can't find what they're looking to buy.

According to *DSN's* Consumer Brands Survey, shoppers of household cleaners and chemicals, along with photo and camera customers, are the most brand-conscious customers, based on interviews with consumers in 17 merchandise categories.

Ninety-five percent of all household cleaners and chemicals shoppers said they shop a discount store with a specific brand in mind.

Likewise, these shoppers have a very low preference for private label cleaners.

If they can't find a specific brand, half (49.3 percent) of these shoppers said they will skip the purchase entirely, up slightly over one percentage point from last year.

Increasingly, shoppers of household cleaners and chemicals are wary of finding their preferred brands.

Nearly one-fifth of the survey respondents said they are not sure they'll find their preferred brands, up three percentage points from last year's results.

On a scale of 1 to 9—with one meaning no confidence and nine meaning total confidence—shoppers gave household cleaners and chemicals a 7.6 confidence rating. This is relatively high compared with the other 16 merchandise categories surveyed—only three categories ranked higher—and is down from last year's rating of 7.8.

In addition, 53 percent of the consumers surveyed said they are completely confident they'll find the household cleaner or chemical in their local discount store, higher than every merchandise category but food, candy and snacks and photo and camera, according to survey results.

This is a very substantial comment since consumers listed 38 brands of cleaners they prefer to purchase, higher than all except consumer electronics, photo and camera, and housewares, and tied with food, candy and snacks.

Another reason for consumer confidence is that discounters are gaining a better understanding of what customers want to purchase.

Store managers and consumers agree on six of the top 10 brands in household cleaners and chemicals, up one brand from the 1988 survey.

Overall, consumers said Tide is the No. 1 cleaner, the same results as the store manager survey.

In fact, Tide increased its hold on the No. 1 spot by seven percentage points, due to increases at K mart, Target and especially at Wal-Mart.

No. 2 Comet, while firmly in second place, lost some ground this year, a result of losses at all four top discount chains, but especially at Ames/Zayre.

The top 10 consumer brand list is composed of eight of last year's labels plus Pledge (No. 9) and Spic & Span (No. 10). They replace Ivory and Colgate-Palmolive, which fell to 12th and 14th, respectively.

Of the other eight labels, five recorded mention increases and three, Comet, Lysol and Pine-Sol, all recorded losses.

Consumer Brand Preferences In Household Cleaners

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Tide	30.1%	28.3%	31.6%	28.9%	26.3%
Comet	17.0	18.1	21.1	17.5	13.2
Windex	13.5	14.6	13.2	14.4	14.5
Ajax	10.6	11.5	11.4	9.3	9.2
Dawn	10.3	11.9	15.8	7.2	10.5
Clorox	9.2	8.4	13.2	7.2	11.8
Lysol	8.5	9.3	7.9	8.2	10.5
Pine-Sol	8.5	9.7	7.9	10.3	3.9
Pledge	6.7	8.0	7.9	8.2	9.2
Spic & Span	5.7	6.6	2.6	2.1	11.8

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Household Cleaner Brands: Store Managers vs. Shoppers

Managers	Consumers
Tide	Tide
Clorox	Comet
Windex	Windex
Johnson	Ajax
Formula 409	Dawn
Lysol	Clorox
Dawn	Lysol
Purex	Pine-Sol
Ajax	Pledge
Johnson & Johnson	Spic & Span

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

CE Shoppers Would Rather Skip Than Switch

Nationwide DSN Report

Consumers in the market for consumer electronics goods are likely to look elsewhere if the discounter does not have the specific brand they want, according to *DSN's* 1989 Consumer Brands Survey.

More than six out of 10 consumers (60.9 percent) said they would skip the purchase rather than buy some other CE label, the highest skip rate of all 17 merchandise categories surveyed in this year's report.

This is not surprising since many audio- and videophiles converse easily about amps, decibels, base level, etc., and are very particular about the CE brands they take home.

Discounters appear to be making headway with this consumer, even though dedicated CE customers are not traditional discount shoppers.

The survey shows that traditional discount store shoppers, particularly Ames/Zayre customers, are very brand-oriented in CE. More than nine out of 10 Ames/Zayre customers professed a preference for branded CE products. Conversely, shoppers of the most upscale of the stores surveyed, Target, expressed the least interest in branded CE.

This year, store managers and CE consumers agreed on seven of the top 10 brands, up one brand from last year's survey.

More than eight out of 10 consumers polled (84 percent) said they have a brand preference when shopping for CE products, up five percentage points from 1988.

Likewise, relatively few CE shoppers (11.7 percent) express a preference for private label CE products. However, that figure represents an increase in preference for private label CE over last year when just 3.4 percent of CE shoppers said they prefer private label CE products to branded goods.

Despite the advances, persnickety CE shoppers still are not very certain of finding their favorite brands at discount stores.

In fact, nearly three out of 10 consumers (28.9 percent) said they are "not sure" they'll find the CE label they want, the highest uncertainty rating of all 17 categories.

In addition, the consumer confidence rating for CE fell about half a point from last year, the largest decline of the categories surveyed.

On a scale of 1 to 9—with one meaning no confidence and nine meaning total confidence—consumers gave CE a 6.63 confidence rating, the lowest of all 17 merchandise categories.

Overall, Sony is the No. 1 CE label on the consumer list. Sony surpassed General Electric, last year's No. 1 label among consumers, for the top position. Sony's rise from No. 2 on the 1988 survey is due in large part to substantial mention increases by Wal-Mart and Target customers.

GE, which makes clock radios, personal portable radio/tape cassettes and other relatively small electronics but not TVs, is in the No. 2 position. GE continues to command a major presence among the top 10 CE brands of both consumers and store managers because of its long history and name recognition.

Of the top 10 CE labels, eight returned from last year. The two new labels are Pioneer and Scotch, replacing Apple and TDK.

Emerson, No. 1 among store managers, continues to make the consumer top brands list, but in a less dominant position. This is probably because shoppers don't think of Emerson—which produces reliable, mid-range equipment—when they go to buy, but end up attracted to the brand's sharp pricing and eventually make the purchase.

Nintendo (No. 5) and Sharp (No. 6) continue their rise, supported by the increasing acceptance of Nintendo games and new products—despite product shortages which have tarnished the shine for many consumers and store managers—and Sharp's effective network advertising.

Consumer Brand Preferences In Consumer Electronics

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Sony	16.2%	14.7%	13.9%	22.5%	13.5%
General Electric	12.2	12.9	18.1	11.3	7.7
Panasonic	10.2	8.6	9.7	9.9	1.9
RCA	9.1	11.0	15.3	9.9	11.5
Nintendo	9.1	8.6	2.8	9.9	7.7
Sharp	6.1	6.7	4.2	7.0	3.8
Emerson	4.6	5.5	6.9	2.8	11.5
Zenith	4.6	5.5	5.6	4.2	7.7
Pioneer	3.6	4.3	2.8	4.2	1.9
Scotch	3.6	3.1	4.2	4.2	1.9

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Consumer Electronics Brands: Store Managers vs. Shoppers

Managers	Consumers
Emerson	Sony
General Electric	General Electric
Panasonic	Panasonic
Sony	RCA
Sharp	Nintendo
RCA	Sharp
Magnavox	Emerson
GoldStar	Zenith
Nintendo	Pioneer
Soundesign	Scotch/3M

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Despite Kodak's Enduring Appeal, Other Brands Develop Popularity

Nationwide DSN Report

Don't even bother asking consumers to buy private label photo and camera equipment because it isn't worth the effort.

But if you ask them if they have a brand preference in photo and camera, 95 percent of them will say they do, and probably name Kodak at the top of their list.

That's one of the major findings of *DSN's* 1989 Consumer Top Brands Survey of the photo and camera category.

Shoppers are so attuned to branded goods in photo and camera that if the label they want is unavailable, nearly six out of 10 (57.3 percent) will skip the purchase entirely, higher than all other merchandise categories but cosmetics and consumer electronics.

Despite that tendency, shoppers are very confident—in fact, the most confident of consumers of all 17 categories—that they'll find their preferred brand.

On a scale of 1 to 9—with one meaning no confidence and nine meaning total confidence—shoppers gave photo and camera a 7.89 confidence rating, the same as the year before.

The brands consumers search for are among the most popular brands known to American consumers.

Topping the list, once again, is Kodak. The No. 1 photo label among consumers also ranked No. 1 in mentions by store managers asked to name their best performing brands (see Store Managers Top Brands, *DSN*, Oct. 16, 1989).

In fact, consumers and store managers agree on six of the top 10 photo and camera brands, the same as in 1988.

Kodak's top ranked position eroded somewhat.

The popular consumer label slipped nearly four percentage points in the rankings among consumers this year, a result of advances by Fuji, Duracell, Canon, Eveready, Sony, Sylvania and other top 10 brands.

Kodak, along with Polaroid, had the most substantial mention losses recorded on the consumer survey. And it lost ground among the nation's top four discount chains: K mart, Wal-Mart, Target and Ames/Zayre.

Polaroid also posted declines in consumer mentions at all four discounters, enough to drop the brand from No. 3 to No. 4 on this year's chart.

No. 2 Fuji—which is way back in second place behind Kodak—posted dramatic mention increases at Target and Ames/Zayre, a small increase at Kodak and a big decline at Wal-Mart.

Duracell, which jumped three spaces on the consumer brands survey this year, owes its climb to substantial increases at all four discounters, but especially to Wal-Mart shoppers, who named Duracell as a preferred brand nearly 11 times more often this year than in 1988.

Consumer Brand Preferences In Photo & Camera

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Kodak	79.0%	78.2%	82.5%	74.0%	74.3%
Fuji	10.5	10.5	6.8	14.6	12.2
Duracell	7.9	8.6	11.7	8.3	9.5
Polaroid	6.0	6.4	7.8	6.3	2.7
Canon	5.2	4.5	4.9	6.3	6.8
Eveready	4.1	5.0	3.9	2.1	4.1
Sony	1.9	1.4	1.0	2.1	1.4
Sylvania	1.9	2.3	1.9	2.1	1.4
Scotch	1.1	1.4	1.0	1.0	2.7
Memorex	0.7	0.9	1.0	1.0	—

Source: Discount Store News/Leo J. Shapiro & Assoc.

Top Photo & Camera Brands: Store Managers vs. Shoppers

Managers	Consumers
Kodak	Kodak
Polaroid	Fuji
Canon	Duracell
Minolta	Polaroid
Fuji	Canon
Pentax	Eveready
Nikon	Sony
Emerson	Sylvania
Duracell	Scotch/3M
Scotch/3M	Memorex

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/ Leo J. Shapiro & Assoc.

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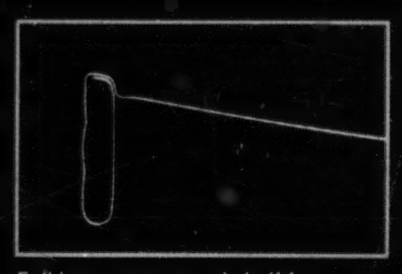

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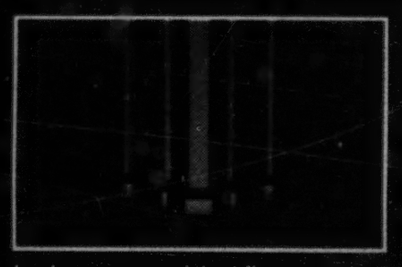

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PERSONAL CARE APPLIANCES

TOP BRANDS II

Consumer Brand Preferences in Personal Care Appliances

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre	Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Conair	25.4%	28.6%	37.5%	28.0%	31.6%	GE	9.2%	9.8%	8.3%	6.0%	5.3%
Vidal Sassoon	13.8	13.4	8.3	12.0	21.2	Norelco	8.5	8.9	6.3	6.0	2.6
Remington	11.5	13.4	10.4	6.0	13.2	Sunbeam	3.8	3.6	6.3	6.0	5.3
Clairol	10.8	9.8	14.6	16.0	13.2	Schick	3.8	2.7	—	6.0	5.3
Gillette	10.8	9.8	16.7	10.0	10.5	Braun	3.8	3.6	2.1	6.0	5.3

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

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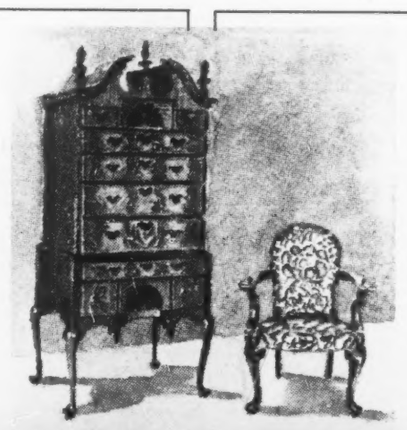

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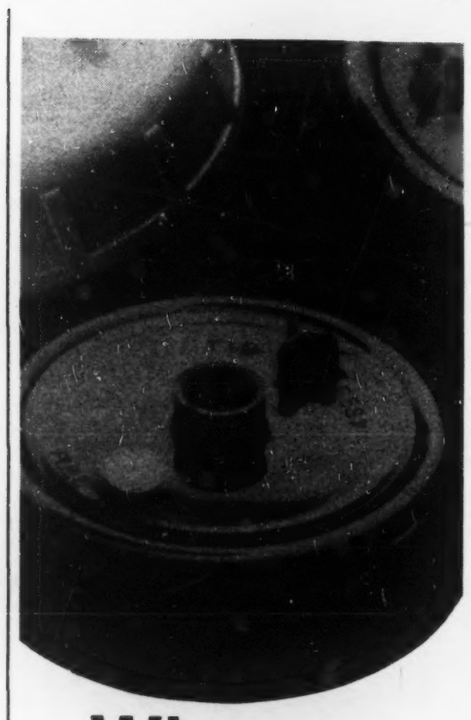

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National Name Brands Score Points Among Sporting Goods Consumers

Nationwide DSN Report

Discount store shoppers are more interested in name brand sporting goods this year than they were a year ago, according to *DSN*'s Consumer Top Brands Survey.

Seventy-one percent of consumers polled expressed a preference for a national name label in sporting goods this year, an increase of 12 percentage points from last year's survey.

Of the brands mentioned specifically by consumers, Wilson and Spalding were the two most preferred labels for the second year in a row. Nearly 16 percent of discount store shoppers named Wilson as their preferred brand in sporting goods, while about 12 percent named Spalding. Those figures are slightly lower than the 19.3 percent and 13.6 percent those top brands garnered respectively in the previous year's survey.

Zebco, the No. 3 ranked brand last year with 8.6 percent of total mentions, dropped to No. 5 this year, with 5 percent of mentions.

While the top three brands received relatively fewer mentions this year, a number of other labels saw their standing among consumers rise. Coleman was named as a preferred brand by 9.6 percent of shoppers, up from 6.3 percent last year. Garcia rose to 4 percent, from 3.3 percent in 1988.

And, three brands made the top 10 list for the first time: Reebok, though not usually found at discount stores, nevertheless ranked sixth with 4.6 percent of mentions; Penn ranked eighth with 4.3 percent; and Rawlings debuted on the top 10 list with 3.3 percent of the responses.

The rankings of the top brands varied only slightly among shoppers of the four major discount store chains. The top three brands at K mart were Wilson, Spalding, and Coleman. At Wal-Mart, Wilson and Spalding were the top two, with Zebco coming in third. Target shoppers preferred Wilson, Coleman and Spalding. At Ames/Zayre, Wilson was again No. 1, but Spalding and Nike tied for second.

There was a greater amount of disagreement this year between store managers' views of their top performing brands and consumers' views of their preferred brands.

Managers and consumers agreed upon only five of the top 10 brands in the sporting goods category. Last year, managers and consumers agreed on eight sporting goods labels.

Only Wilson, Spalding, Coleman, Zebco, and Garcia appeared on both the store managers' top 10 list of top performing brands and consumers' top 10 list of preferred brands. The brands neglected by the managers but preferred by consumers were: Nike, Reebok, Remington, Penn and Rawlings.

Consumer Brand Preferences In Sporting Goods

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Wilson	15.6%	14.8%	17.0%	18.1%	13.7%
Spalding	12.3	13.6	10.0	14.3	9.5
Coleman	9.6	10.7	5.0	17.1	7.4
Nike	6.3	5.8	2.0	6.7	9.5
Zebco	5.0	5.8	7.0	3.8	4.2
Reebok	4.6	3.7	4.0	5.7	4.2
Remington	4.3	4.5	4.0	2.9	4.2
Penn	4.3	3.3	3.0	3.8	3.2
Garcia	4.0	4.5	3.0	3.8	3.2
Rawlings	3.3	2.5	1.0	3.8	3.2

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Top Sporting Goods Brands: Store Managers vs. Shoppers

Managers	Consumers
Wilson	Wilson
Coleman	Spalding
Spalding	Coleman
Zebco	Nike
MacGregor	Zebco
Huffy	Reebok
Franklin	Remington
Garcia	Penn
Berkley	Garcia
Academy Broadway	Rawlings

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/ *Leo J. Shapiro & Assoc.*

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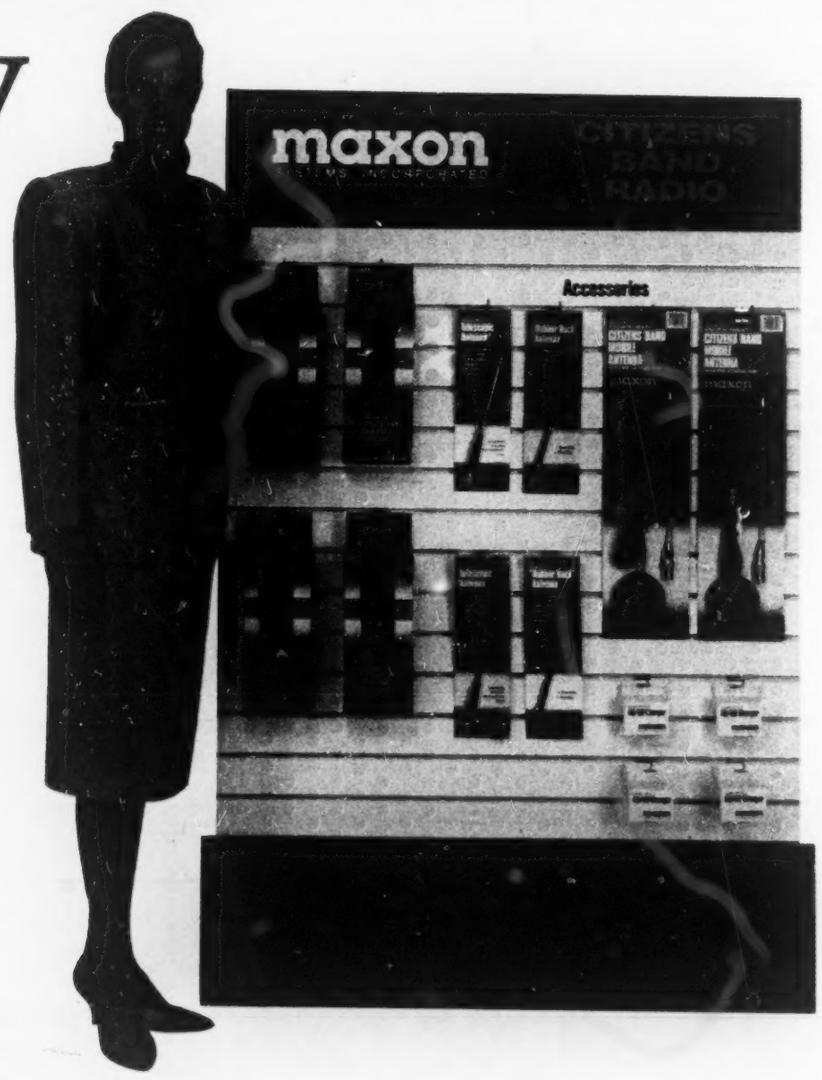

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Consumers Likely to Buy Another If Preferred Brand Not Available

Nationwide DSN Report

When consumers shop a discount store for a stationery department product, they are very likely to have a particular brand in mind.

In fact, more than half of discount store shoppers polled in *DSN's* 1989 Consumer Top Brands Survey said they would prefer to buy Hallmark.

But, in comparison with consumers shopping 16 other discount store merchandise categories, stationery shoppers are also likelier to buy another brand if their preferred brand is not in stock.

Of the 17 product categories covered in the Consumer Top Brands Survey, the shopper least likely to skip the purchase entirely and therefore most likely to switch brands is the stationery customer. Fewer than three in 10 stationery customers will skip the purchase if the brand they want is unavailable.

Considering Hallmark's low penetration of the discount store channel, it appears that those consumers preferring Hallmark are not walking out of the discount store empty-handed. They're buying such brands as American Greetings, Ambassador (a division of Hallmark), Sangamon, Gibson and others.

High Confidence Rating

In a curious finding, consumers said they are very confident of finding the brand they want in stationery, even though their most preferred brand is often not available. The mean rating of consumer confidence in finding the brand they want in stationery—based on a scale of 1 to 9 with one meaning no confidence and nine meaning total confidence—was 7.49, an increase from the 7.18 rating the department garnered in 1988. That figure is also higher than the average rating of 7.37 registered by all 17 departments studied.

The proportion of consumers expressing a preference for private label stationery in 1989 grew to 16 percent, from just 9 percent last year. However, preference for private label stationery products is still relatively low compared to other merchandise categories such as hardware (41 percent), children's apparel (34 percent), and women's apparel (30 percent).

In all, 68 percent of discount store shoppers expressed a national name brand preference in stationery, up five percentage points from the previous year.

Following Hallmark, consumers' most preferred brands are American Greetings, Bic, Mead, and Papermate. With the exception of Hallmark, those top consumer brands were also among the top 10 brands rated by discount store managers as top performers. Ambassador also appeared on both consumers' top 10 and store managers' top 10 lists.

Forget-Me-Not, Scotch/3M, Parker and Schaeffer-Eaton were among the consumers' top 10 brands, but did not make the store managers' list of top 10 department performers.

Top Stationery Brands: Store Managers vs. Shoppers

Managers	Consumers
Mead	Hallmark
Bic	American Greetings
American Greetings	Bic
Crayola	Mead
Papermate	Papermate
Ambassador	Ambassador
Cambridge	Forget-Me-Not
Gibson Buzza	Scotch/3M
Hallmark	Parker
Stuart Hall	Schaeffer-Eaton

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Brand Preferences In Stationery

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Hallmark	57.5%	56.0%	47.7%	59.4%	57.7%
American Greetings	15.8	16.0	18.2	15.2	12.6
Bic	7.5	7.3	7.6	7.2	7.2
Mead	6.7	7.3	7.6	8.0	6.3
Papermate	3.7	4.3	2.3	4.3	2.7
Ambassador	1.9	2.3	2.3	2.2	1.8
Forget-Me-Not	1.9	2.3	1.5	1.4	3.6
Scotch	1.3	1.3	.8	1.4	0.9
Parker	1.1	1.0	1.5	0.7	—
Schaeffer/ Eaton	0.8	1.0	1.5	—	0.9

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Brand-Consciousness Slackens a Bit in Toys

Nationwide DSN Report

Discount store shoppers appear less brand-conscious this year when buying toys. In the 1989 Consumer Top Brands Survey, just 72 percent of shoppers had a preference for a name brand toy, compared with 77 percent in 1988.

Surprisingly, in such a brand-intensive category as toys, private label charted a substantial growth in preference among toy shoppers, the biggest percentage increase in private label preference of all 17 merchandise categories covered in the study.

For the second consecutive year, Mattel was the name brand preferred by the largest percentage of discount store shoppers. The maker of a wide range of toy department staples, including the ever-popular Barbie dolls and accessories, ranked No. 1 in the toy category in this year's survey.

Fisher-Price ranked second on consumers' top 10 list of name brands, according to the survey, reversing the order of finish that store managers gave top performing brands in the toy department. In a survey of discount store managers (see *DSN*, Store Managers Top Brands, Oct. 16, 1989), Fisher-Price received the largest percentage of mentions as a best performing brand in the department, followed by Mattel.

Milton Bradley, Hasbro and Playskool ranked third, fourth and fifth in the consumer poll of preferred brands. Since Milton Bradley and Playskool are divisions of Hasbro, Hasbro as a company received nearly 30 percent of all mentions—which would have propelled it to first on the list. Among store managers, the Hasbro, Milton Bradley and Playskool brands all ranked among the top six brands.

This year, as in 1988, store managers and consumers agreed on seven of the top 10 toy brands.

Lesney/Matchbox, Crayola and Schwinn appeared on the consumers' top 10 list but not store managers, who were asked to name their best performing brands in the department. Crayola's line expansion from crayons and coloring books to a wide range of art-related products no doubt helped fuel its higher profile among consumers.

Interestingly, consumers named Schwinn—not generally considered a discount brand—to their top 10 list although Huffy is the top performing wheel goods brand according to store managers.

Conspicuous by its absence from the top 10 list in toys is Nintendo. But that is because consumers associate Nintendo with consumer electronics, giving the hot video game brand the fifth rank in CE.

The rankings of the brands preferred by customers of the four largest discount chains revealed some slight variations. Among K mart shoppers, the most often mentioned brands are, in order, Mattel, Fisher-Price and Playskool. At Wal-Mart, the top three are Mattel, Fisher-Price and Milton Bradley. Target shoppers look for Mattel, Fisher-Price, Playskool and Hasbro. And, an equal number Ames/Zayre shoppers prefer Mattel and Fisher-Price. Lesney/Matchbox is No. 3 among those shoppers.

Top Toy Brands: Store Managers vs. Shoppers

Managers	Consumers
Fisher-Price	Mattel
Mattel	Fisher-Price
Playskool	Milton-Bradley
Little Tikes	Hasbro
Milton Bradley	Playskool
Hasbro	Lesney/Matchbox
Lego	Tonka
Kenner	Lego
Tonka	Crayola
Huffy	Schwinn

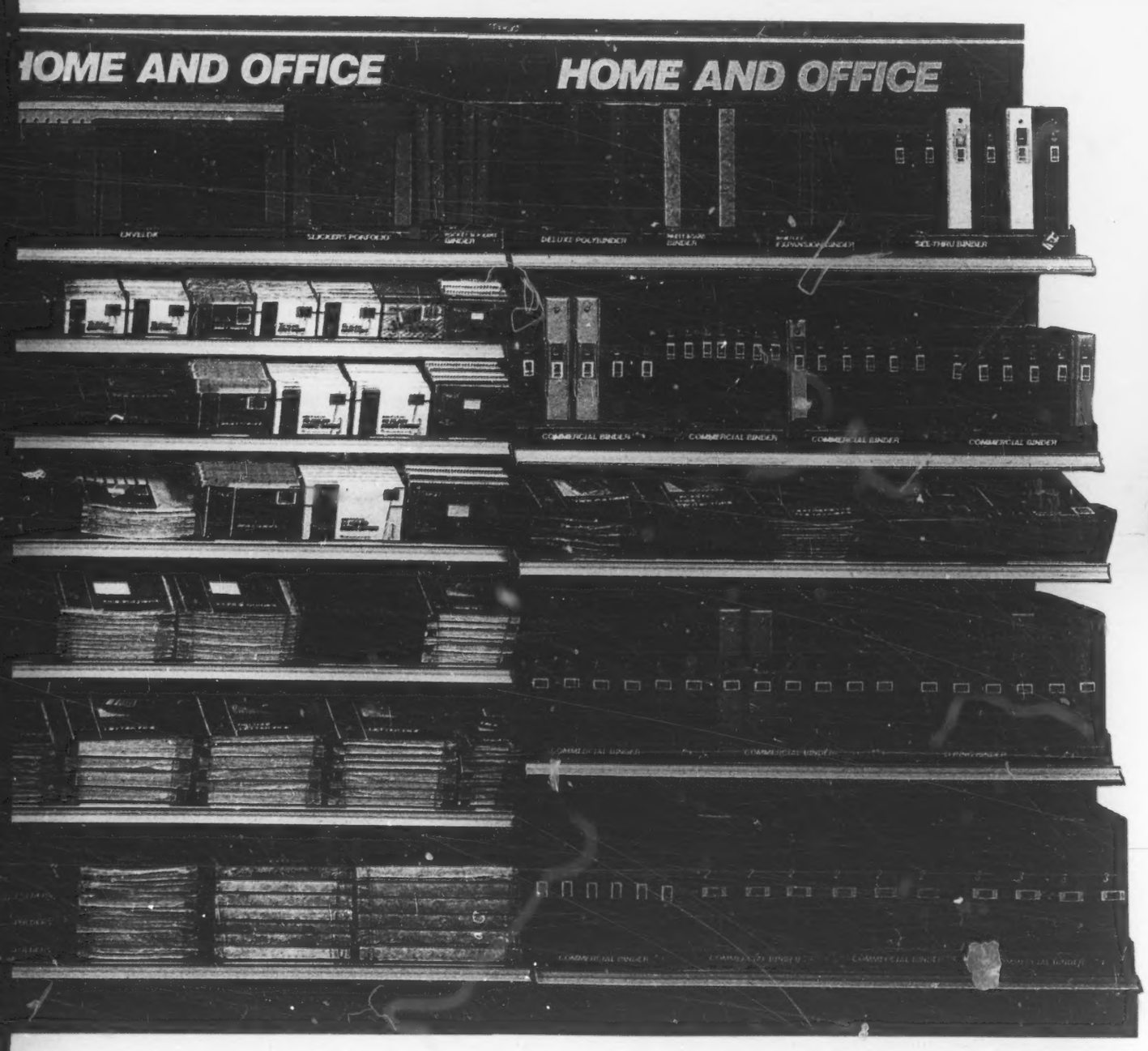
Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Brand Preferences in Toys

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Mattel	25.5%	23.1%	31.3%	30.0%	28.6%
Fisher-Price	19.3	18.2	14.6	15.0	28.6
Milton Bradley	10.3	9.9	12.5	6.7	7.1
Hasbro	10.3	8.3	8.3	11.7	7.1
Playskool	9.0	10.7	6.3	15.0	2.4
Lesney/ Matchbox	6.9	7.4	8.3	3.3	11.9
Tonka	6.2	5.8	2.1	5.0	7.1
Lego	5.5	5.8	4.2	5.0	7.1
Crayola	4.1	4.1	6.3	5.0	4.8
Schwinn	4.1	5.0	4.2	5.0	2.4

Source: Discount Store News/*Leo J. Shapiro & Assoc.*



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Consumers Prefer Wide Array of H&BA Brands

Nationwide DSN Report

How's this for brand diversity in a product category? When asked to name their preferred brands in health & beauty aids, consumers polled in *DSN's* 1989 Consumer Top Brands Survey mentioned 76 different labels, 11 more than in last year's study.

Adding to the dizzying array of name H&BA labels with consumer-appeal are "other" brands that each elicited less than 0.3 percent of mentions from consumers. These "other" brands garnered a total of 40 percent of mentions in the category, more than double the number of mentions for the No. 1 brand, Crest.

Name brand H&BA products are very important to consumers.

In fact, 92 percent of all discount store shoppers polled said they have a brand preference when shopping for health and beauty aid products, among the most brand-conscious shoppers in a store.

The only merchandise categories to record greater response to the brand preference question are consumers of household cleaners and chemicals as well as photo and camera.

Among the specific discount chains, Wal-Mart shoppers are the most particular about brands in H&BA with 93.5 percent voicing a brand preference. K mart shoppers are the least brand-conscious, with 90.9 percent having said they have a preference.

Shoppers Prefer Crest

And the brand all the H&BA shoppers said they prefer most is Crest, last year's No. 1 label.

Crest was named as a preferred brand by nearly one-fifth (14.6 percent) the shoppers polled, up from 11.5 percent a year ago.

Colgate, while still in the No. 2 spot behind Crest, significantly improved its position, coming within one percentage point of Crest, an improvement from the 1988 survey.

Ivory grabbed the third rank on the consumer brands list this year. However, its mention rate declined among shoppers at Target and Ames/Zayre.

Ivory gained ground at K mart and to a greater extent, at Wal-Mart, where shoppers named the popular soap label nearly one-fifth of the time.

Overall, six H&BA brands remained on the top 10 survey list. The four new name brands include Gillette, Listerine, Dial, and Head & Shoulders, in fifth, sixth, eighth, and 10th positions, respectively.

They replaced Lever Brothers/Dove, Clairol, Kleenex, Charmin and Suave, which fell to 11th, 24th, 20th, 22nd, and 17th, respectively.

The most dramatic change on the top brands list is the four place jump recorded by Mennen, to fourth.

Mennen, in eighth place a year ago, owes its rise to across-the-board increases at all four discount chains.

Consumer Brand Preference In Health & Beauty Aids

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Crest	14.6%	15.4%	18.3%	19.8%	12.5%
Colgate	13.6	14.2	20.9	8.5	11.3
Ivory	9.4	8.3	13.9	7.5	3.8
Mennen	6.1	6.7	5.2	5.7	3.8
Gillette	5.8	5.4	6.1	5.7	5.0
Listerine	5.5	5.8	6.1	4.7	7.5
Johnson & Johnson	4.9	4.2	4.3	4.7	1.3
Dial	4.9	5.4	7.0	4.7	5.0
Revlon	4.5	4.6	4.3	2.8	3.8
Head & Shoulders	4.5	5.4	6.1	5.7	3.8

Source: Discount Store News/Leo J. Shapiro & Assoc.

Top Health & Beauty Aids Brands: Store Managers vs. Shoppers

Managers	Consumers
Crest	Crest
Colgate	Colgate
Johnson & Johnson	Ivory
Listerine	Mennen
Procter & Gamble	Gillette
Suave	Listerine
Clairol	Johnson & Johnson
White Rain	Dial
Scope	Revlon
Ivory	Head & Shoulders

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)?' and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/Leo J. Shapiro & Assoc.

We can't keep you in the dark any longer.

Private Label Goods Rival Name Brands in Attracting Consumers

Nationwide DSN Report

Hardware consumers seem to be a fickle lot: they look for national brands more than ever before but increasingly prefer private label goods; more of them now will switch brands if the one they want is unavailable but still many will skip the purchase if they can't get a particular label.

Those are some of the results from *DSN's* 1989 Consumer Top Brands Survey.

Apparently, discount store shoppers looking for a hardware item are nearly as likely to seek out a private label brand as they are a national brand, according to this year's survey results.

In fact, when consumers were asked to name the merchandise categories in which they prefer private label merchandise to national brands, hardware topped the list, rising 16 percentage points from last year's consumer brands survey.

More than four out of 10 consumers said they prefer private label brands in hardware to national brands, indicating that discounters are succeeding with the imports they bring in as alternatives to the national labels. However, discounters have not been as successful at creating brand loyalty in hardware as they have been in other departments.

Despite these results, more consumers this year than in 1988 said they do have a brand preference in hardware. But, if that brand is not available to them, nearly half (45.7 percent) the consumers surveyed said they would skip the purchase, down 10 percentage points from a year ago.

However, consumers reported that when faced with buying the brand they prefer or foregoing the purchase entirely, if that brand is not available, more than half (54.3 percent) would simply switch to another brand.

Despite that, consumers report they are relatively confident they'll find the hardware brand they are looking for, although their confidence has waned a little from 1988.

On a scale of 1 to 9—with one being the least confident and nine meaning total confidence—consumers awarded a 7.07 to the hardware department at discount stores, down from 7.19 a year ago.

This year, only five of last year's hardware brands reappeared on the 1989 consumer top 10 list.

Black & Decker and Stanley again topped the survey, although they switched positions from last year.

On the current survey, Black & Decker came out on top with Stanley in the No. 2 spot. In the store manager survey, Stanley garnered the most mentions with Black & Decker in the No. 2 position.

Although B&D was mentioned more often by consumers as the hardware label they look for most when making a hardware purchase, the elevation was due entirely to Target shoppers.

In addition, Target shoppers gave Stanley products its only increase in responses this year. K mart, Wal-Mart and Ames/Zayre shoppers all named Stanley less frequently this year than in 1988.

(Continued on page 61)

Top Hardware Brands: Store Managers vs. Shoppers

Managers	Consumers
Stanley	Black & Decker
Black & Decker	Stanley
General Electric	General Electric
Skil	Dutch Boy
Lucite	Glidden
Rubbermaid	Lucite
Royal	Duracell
Bull Dog	Skil
Glidden	Rubbermaid
Great Neck	DuPont

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/Leo J. Shapiro & Assoc.

Consumer Brand Preferences in Hardware

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Black & Decker	18.3%	16.9%	16.5%	19.6%	17.6%
Stanley	13.1	13.6	9.6	12.4	15.4
General Electric	6.6	6.6	5.2	9.3	7.7
Dutch Boy	4.2	4.1	2.6	4.1	2.2
Gildden	2.4	2.5	2.6	2.1	3.3
Lucite	1.0	1.2	1.7	2.1	—
Duracell	1.0	1.2	0.9	1.0	1.1
Skil	0.7	0.4	—	2.1	—
Rubbermaid	0.7	0.8	1.7	—	1.1
DuPont	0.3	0.4	0.9	—	1.1

Source: Discount Store News/Leo J. Shapiro & Assoc.

Our bright ideas are selling like crazy.

M&M Nibbles on Hershey's Edge in Popularity

Nationwide DSN Report

When consumers have a yen for a between-meal snack, most prefer to satisfy their sweet tooth with a Hershey's brand product, according to responses to *DSN's* 1989 Consumer Top Brands Survey.

However, Hershey's, which for the second year in a row collected the highest percentage of mentions by consumers as their preferred label in the food, candy and snacks category, lost some of its edge over the No. 2 brand, M&M.

More than one-fifth (17.7 percent) of all discount store shoppers looking for a snack food said they prefer Hershey's, down from 19 percent in 1988.

Hershey's weakened position is due to total mention declines by shoppers at all four of the nation's leading discount chains: K mart, Wal-Mart, Target and Ames/Zayre.

M&M, the No. 4 ranked brand last year, moved up to the No. 2 spot largely to mention increases at all four discounters but particularly because of Wal-Mart and Ames/Zayre customers.

This year's top brands list consists of just six of the same labels as in the 1988 survey.

In addition, store managers and consumers agreed on six of the top brands, two fewer than they agreed upon in 1988.

Consumers and store managers (see *DSN's* 1989 Store Managers Top Brands Survey, Oct. 16, 1989) also disagreed as to the positioning of the top 10 brands in the food, candy and snacks category, probably due to the huge number of products.

In fact, there are so many labels to chose from that nearly 30 percent of the consumers identified a specific food, candy or snack brand that received less than 0.3 percent of total mentions.

This year consumers listed 39 brands, 17 were confectionary products, 12 snacks, five food labels and three beverages—Coke (19th), Pepsi (29th) and 7-Up (36th).

No beverage labels made the top 10 consumer list. Coke was the only one to rank in the top 10 among store managers.

What consumers and store managers agree on is the importance of brand names in the food, candy and snacks category.

Compared with the 16 other merchandise categories, consumers of food, candy and snacks are the fifth most brand-conscious shoppers.

In fact, nearly nine out of 10 consumers (87.7 percent) said they do have a brand preference in this category, the most brand-conscious of whom are Ames/Zayre shoppers (88.4 percent).

On the whole, private label merchandise is barely a factor in this category. Even so, 12 percent of Ames/Zayre shoppers expressed a preference for store brand/private label products.

Wal-Mart shoppers are the least likely to prefer private label consumables (7.4 percent.)

Four food, candy and snack labels dropped off the top 10 consumer list this year: Jays (11th), Mars (12th), Milky Way (20th), and Standard Brands (13th). They were replaced by Lay's, Wrigley, Reese's, and Nabisco-brand foods.

Consumer Brand Preferences In Food, Candy & Snacks

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Hershey's	16.7%	18.1%	20.7%	14.9%	17.2%
M&M	15.2	14.1	12.6	14.9	19.2
Snickers	12.0	10.5	14.1	10.7	12.1
Planters	10.2	11.2	8.9	9.1	7.1
Brach's	7.3	7.6	8.1	8.3	8.1
Lays	7.0	6.5	9.6	6.6	8.1
Frito Lay	6.1	7.2	8.1	7.4	6.1
Wrigley	4.4	4.7	5.2	5.0	3.0
Reese's	4.4	4.3	4.4	5.0	4.0
Nabisco	3.5	3.2	3.7	4.1	4.0

Source: Discount Store News/Leo J. Shapiro & Assoc.

Top Food, Candy & Snack Brands: Store Managers vs. Shoppers

Managers	Consumers
Hershey's	Hershey's
Mars	M&M
Frito Lay	Snickers
Brach's	Planters
Planters	Brach's
M&M	Lay's
Sather	Frito Lay
Nabisco	Wrigley
Coke	Reese's
3 Musketeers	Nabisco

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/Leo J. Shapiro & Assoc.

We outshine our competition where it counts most to retailers.

Consumers, Managers See Eye to Eye on Brands

Nationwide DSN Report

When it comes to automotives products, consumers and store managers are in sync with each other about top brands.

For the second consecutive year, consumers and store managers agreed on eight of the top 10 brands in automotives, according to results of *DSN's* 1989 Top Brands Surveys.

No other merchandise category had managers and shoppers agreeing on more labels and only one other, ladies' apparel, recorded both groups agreeing on eight brands.

Last year, managers and consumers also agreed on eight of the top 10 brands.

Different this year, however, is the positioning of those labels. Unlike last year when store managers and shoppers agreed on the top three automotives brands, the two groups concurred on only one position: Castrol/Castroil, in eighth place.

Among consumers, Pennzoil is the No. 1 automotives brand, the same as a year ago. Pennzoil was the No. 2 brand on the managers' list of top performing automotives brands, down from first place in 1988 (see *DSN's* Store Managers Top Brands Survey, Oct. 16, 1989).

Quaker State, No. 2 last year, remained in that spot, but with far fewer mentions. In fact, Quaker State fell back to approximately six percentage points behind No. 1 Pennzoil, compared with just a four point gap last year.

Pennzoil, while in first place, dropped three percentage points from the 1988 survey, due to a dramatic decline at Ames/Zayre (14.3 percent down from 25.2 percent) and to a lesser extent at K mart and Wal-Mart.

Target shoppers named Pennzoil more often this year than last year, 30.6 percent, up from 28.6 percent.

Quaker State's decline was across-the-board, among all discount store shoppers and at K mart, Wal-Mart, Target and Ames/Zayre.

Perhaps consumers are identifying more strongly with golf legend Arnold Palmer, who is Pennzoil's spokesman.

Top Automotives Brands: Store Managers vs. Shoppers

Managers	Consumers
Quaker State	Pennzoil
Pennzoil	Quaker State
Valvoline	Fram
Fram	AC-Delco
Havoline	Turtle Wax
STP	Valvoline
Prestone	Armor All
Castrol/Castroil	Castrol/Castroil
AC-Delco	Havoline
Turtle Wax	Champion

Top 10 rankings in each category are based on discount store managers' response to the question: 'What are your best performing name brands in (department)? and discount store consumers' response to the question: 'If you were shopping for (product) in a discount department store, which brand of that product would you want?

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Consumer Brand Preferences in Automotives

Top Brands	Discount Shoppers	K mart	Wal-Mart	Target	Ames/ Zayre
Pennzoil	22.9%	23.9%	22.3%	30.6%	14.3%
Quaker State	16.5	15.2	15.7	12.7	20.2
Fram	12.5	12.4	11.4	11.5	15.1
AC Delco	9.7	10.3	11.4	9.6	9.2
Turtle Wax	7.8	7.8	6.6	10.2	5.9
Valvoline	7.3	6.9	9.0	7.6	5.9
Armor All	6.9	6.6	7.2	7.6	9.2
Castrol/ Castroil	5.2	5.2	2.4	6.4	5.0
Havoline	4.5	4.3	8.4	2.5	2.5
Champion	4.3	4.6	3.0	4.5	6.7

Source: Discount Store News/*Leo J. Shapiro & Assoc.*

Overall, nine of last year's top 10 brands reappeared on the consumers' list this year.

Havoline, a favorite among store managers, landed in the No. 9 slot on the consumer list this year. It replaced STP, which dropped to 14th from ninth place a year ago.

More than eight out of 10 shoppers said they have a brand preference when shopping for automotives, up from 78 percent in 1988.

Wal-Mart shoppers are the most brand-conscious (87.4 percent) of the four discount chains. K mart consumers are the least brand-conscious (83.1 percent), according to survey results.

Ames/Zayre shoppers are the most interested in private label goods and Target shoppers the least interested.

In fact, more than one-fourth of Ames/Zayre shoppers expressed a preference for private label automotives. Just one-fifth of Target shoppers said they are interested in private label products.

ICI can brighten your profit picture 16 different ways...

Men Want National Labels

(Continued from page 31)

brands on the consumer list also made the store managers list of top performing brands, in a different order.

Gitano, Manhattan and Brittania were the three men's labels on the store managers list that did not make the consumers' survey and Arrow, Jockey and BVD, all underwear labels, appeared on the current consumers list.

At the nation's top four discount chains, the top three performers were Levi's, Fruit of the Loom and Hanes. The ranking of the brands varied by chain, however.

K mart shoppers said Levi's was the brand they look for, followed by Hanes, which edged out Fruit of the Loom for second.

Target shoppers gave the three brands the same ranking but Hanes was a much stronger No. 2 brand because Fruit of the Loom was a distant No. 3 label.

Fruit of the Loom was the No. 1 brand among Wal-Mart shoppers. Levi's was a close second and Hanes third.

Levi's and Hanes tied for the No. 1 spot among Ames/Zayre shoppers and Fruit of the Loom was a distant third.

Lee, the No. 4 brand in men's, made its best showing among Ames/Zayre customers, although a distant fourth.

New Lines Propel Children's Wear

(Continued from page 31)

K mart shoppers are the least brand-conscious, according to survey results. And Target customers are the least interested in private label/store brand merchandise.

While consumers are getting more sensitive to labels in children's apparel, their preferences only match up with store managers' perceptions of top sellers half of the time.

Only five children's wear brands—Lee, Health-Tex, OshKosh, Fruit of the Loom and Pampers—were named by both groups as top brands.

In addition to these, store managers said their other five top performing brands in children's apparel are Curity, Fisher-Price, Liberty, a Wal-Mart private label, Garanimals and Garan.

Shoppers said Hanes, Levi's, Nike, Reebok and Huggies, are also brands they look for when shopping at discount stores.

Private Label Goods Rival Name Brands in Attracting Consumers

(Continued from page 58)

Conversely, Wal-Mart shoppers helped both hardware labels record substantial mention losses this year even though survey results show that when it comes to hardware, Wal-Mart shoppers are the most brand-conscious of customers at all four chains.

But Wal-Mart shoppers are also the most likely to prefer store brands or private label goods, survey results revealed.

Target, the only upscale discounter singled out in the survey, had the least brand-conscious shoppers in hardware goods and the customers with the least affinity for store brand/private label goods.

Aside from Black & Decker and Stanley in the one-two positions on the consumer top 10 brands list in hardware, General Electric returned in the No. 3 position. Glidden, No. 4 last year, was fifth on the current survey, and No. 5 Duracell, fell to seventh.

Dropped from the consumer top 10 brand list this year were Master Lock, Homelite, Olympic Paints, Red Devil and Yale. They were replaced by Dutch Boy, Lucite, Skil, Rubbermaid and DuPont.

Red Devil, Master Lock and Homelite were Nos. 11, 12, and 13, respectively, on the current survey. Olympic Paint was not mentioned by consumers as a sought-after hardware brand this year.

Overall, consumers and managers agreed on seven of the top 10 hardware labels.

Both agreed that Stanley, Black & Decker, General Electric, Skil, Lucite, Rubbermaid and Glidden were top 10 labels. But consumers added Duracell, Dutch Boy and DuPont to their list and store managers said Royal, Bull Dog and Great Neck were top hardware brands.

Black & Decker was the most preferred brand among hardware shoppers. (DSN photo)

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Cornell Study Shows Record Profits for Chains

(Continued from page 1)
goods out the door and squeezing more sales dollars out of each store. While gross margin dipped slightly, discounters were able to garner higher earnings figures by significantly lowering expenses.

Twenty-two retailers with aggregate sales of $30.5 billion from 2,713 stores participated in the 1989 edition of the Cornell "Operating Results in Mass Retail Stores" study.

After a somewhat depressed 1988 year, which saw per-store sales and stock turns decrease from the prior period, discounters rebounded with improved numbers, reflecting a relatively healthy discount industry.

Gross margin as a percent of total sales continued on a moderate downward trend, to 26.6 percent in 1988 to 1989, from 26.85 percent a year ago. Gross income as a percent of total sales dipped to 26.8 percent, from 27.2 percent.

Yet, even with a slight gross margin decline, net profits were pushed up because of cost-cutting. Discounters' gains in belt-tightening is borne out by the decline of total expenses as a percent of total sales—more than a full percentage point drop to 21.3 percent, from 22.6 percent in 1987 to 1988. Cost-cutting ran the gamut from store operations, field supervision and merchandising to advertising and promotion, accounting, and warehousing. Certain transportation, administration and human resources costs rose.

Discounters were able to cut costs in payroll, recruiting expenses, property rentals, utilities, insurance, equipment rentals, repair and maintenance, pre-opening expenses, communications, travel, professional services, advertising and miscellaneous. More money—as a percentage of sales—was spent on employee benefits, pensions and profit sharing, depreciation and amortization, supplies and services purchased, and donations.

Also for the first time, average sales per square foot (selling area) for all discounters increased to over $200, jumping to $201 per square foot in 1988 to 1989, from $177 per square foot in 1987 to 1988.

Annual turns for all owned departments moved higher to 4.1 in 1988 to 1989, up from 3.7 in 1987 to 1988. That 4.1 figure topped the previous six-year high turn figure of 4.0 recorded in 1986 to 1987.

However, stock shortage at retail, as a percentage of owned sales, took a troubling rise to 1.74 percent from 1.53 percent. Net earnings as a percentage of total sales also rose—to 3.16 percent from 2.54 percent—as did net earnings as a percentage of net worth (23.06 percent from 18.05 percent) and net earnings after taxes as a percentage of total assets (8.97 percent from 7.1 percent).

Sales per store in the 1988 to 1989 sample were $11.2 million, up from $9.3 million in 1987 to 1988. Again, larger chains (over $1 billion in annual sales) showed stronger performance than did the smallest chains (under $300 million). For instance, larger chains averaged $13 million in per-store sales, compared with $5.9 million at smaller chains.

Soft goods as a percentage of total sales, which had a relatively steady rise over the last several years, dipped under 40 percent to 37.1 percent from 40.1 percent. Hard goods increased to 62.9 percent from 59.9 percent. Soft goods also suffered an increase in clearance markdowns (7.9 percent to 8.2 percent), while hard goods saw less markdowns (2.9 percent to 2.7 percent).

Target Hopes AmEx Will Boost Sales

(Continued from page 2)
card and Discover credit cards, Russell said, but she declined to disclose what percentage of its sales are made on credit.

Moreover, the Management Horizons study failed to indicate what proportion of discount chain sales are made on charge and credit cards.

In addition, the discounter will accept AmEx's Optima card, which is a credit card that AmEx charge card customers can obtain after they have had a full year of good payment history.

Charges on the AmEx charge card must be paid off monthly, whereas the Optima credit card permits customers to pay their bills in installments, with interest charged on the unpaid balances.

Other discounters that accept AmEx cards are: Bradlees, Caldor, Jamesway, Montgomery Ward, Marshall's, T.J. Maxx, Alexander's, Clothestime, Ross Stores, Burlington Coat, Filene's Basement, Toys "R" Us, Herman's, Lechmere, Western Auto and Consumers Distributing.

Charges for retail merchandise purchases now account for 30 percent of AmEx's business, Russell said. Within the retail segment, discount store volume is growing at the rate of 20 percent a year. The addition of Target "will make the needle swing," she said.

Target will promote its new link with AmEx in its Christmas promotion based upon the Velveteen Rabbit storybook figure that will be its Christmas plush, (See *DSN*, Oct. 16, 1989, page 1), as well as its television and circular advertisements, Russell said.

AmEx Promotes Target

Conversely, AmEx will promote Target in the monthly "newsletter" that it tucks into bills and is considering a mass mailing that would let cardholders living in Target operating territories know where they can find the nearest Target store, Russell said.

An AmEx release quoted Target marketing vice president, John Pellegrene, as saying, "American Express shares our vision of total commitment to our customers." Target is looking forward to working with AmEx on a number of innovative marketing programs, Pellegrene said.

Accepting the AmEx card is "another convenience for Target customers," said Teresa Peterson, a promotion executive under Pellegrene. Peterson declined to comment on what kinds of sales gains Target expects to see.

In its sales pitch to Target, AmEx also cited a customer survey of its cardholders that found that Target was one of the stores they most frequently cited as stores where they would like to use their cards, Russell said.

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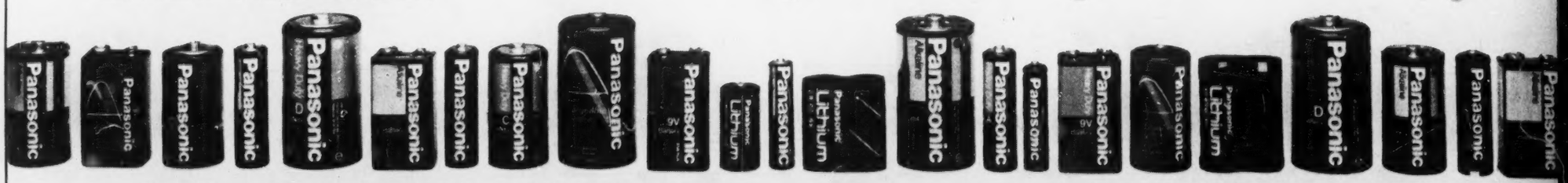

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